



THE SECRETARY OF THE NAVY
WASHINGTON DC 20350-1000

August 28, 2017

MEMORANDUM FOR THE SECRETARY OF DEFENSE

SUBJECT: Annual Statement Required Under the Federal Managers' Financial Integrity Act for Fiscal Year 2017

As Secretary of the Navy, I recognize that the Department of the Navy (DON) is responsible for managing risks and maintaining effective internal controls to meet the objectives of Sections 2 and 4 of the Federal Managers' Financial Integrity Act (FMFIA) of 1982. The DON conducted its assessment of risk and internal control in accordance with the Office of Management and Budget (OMB) Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control. Based on the results of the assessment, as of the date of this memorandum, the DON can provide reasonable assurance, except for the 37 Material Weaknesses (MW) reported in the "Material Weaknesses and Corrective Action Plans" section, that internal controls over operations, reporting, and compliance were operating effectively. In the event a material change occurs in the internal control environment between the date of this memorandum and 30 September 2017, a supplemental statement will be issued to update the resulting assurance level. The annex of classified and Special Access Programs' (SAP) MWs has been forwarded through proper access to the Office of the Secretary of Defense SAP Central Office.

The "Internal Control Evaluation" section provides specific information on how the DON conducted the assessment of Internal Controls over Operations. Based on the results of the assessment, as of the date of this memorandum, the DON can provide reasonable assurance, except for the five MWs reported in the "Operational Material Weaknesses" section (beginning on page 25), that internal controls over operations and compliance were operating effectively. In the event a material change occurs in the internal control environment between the date of this memorandum and 30 September 2017, a supplemental statement will be issued to update the resulting assurance level.

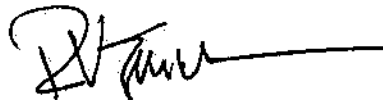
The "Internal Control Evaluation" section provides specific information on how the DON conducted the assessment of Internal Control over Financial Reporting. Based on the results of the assessment, the DON can provide reasonable assurance, except for the 24 MWs reported in the "Financial Reporting Material Weaknesses" section (beginning on page 40), that internal controls over reporting (including external financial

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reporting) and compliance were operating effectively as of 30 June 2017 in accordance with OMB Circular No. A-123, Appendix A.

The DON also conducted an internal review of the effectiveness of the internal controls over the integrated financial management systems in accordance with Federal Financial Management Improvement Act (FFMIA) of 1996 (Public Law 104-208) and OMB Circular No. A-123, Appendix D. The "Internal Control Evaluation" section provides specific information on how the DON conducted the assessment of Internal Controls over Financial Systems. Based on the results of this assessment, the DON can provide reasonable assurance, except for the eight nonconformance items reported in the "Financial Management Systems Material Weaknesses/Nonconformances" section (beginning on page 82), that the internal controls over the financial systems comply with the FFMIA and OMB Circular No. A-123, Appendix D, as of 30 June 2017.

My point of contact is Captain Milton W. Troy, III, who may be reached at milton.troy@navy.mil or (202) 433-9228.



Richard V. Spencer

Attachments:
As stated

FEDERAL MANAGERS'
FINANCIAL INTEGRITY ACT

FY 2017
STATEMENT OF ASSURANCE



DEPARTMENT OF THE NAVY

OFFICIAL USE ONLY

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Introduction

The mission of the Department of the Navy (DON) is to maintain, train, and equip combat-ready Naval forces capable of winning wars, deterring aggression, and maintaining freedom of the seas.

The DON is composed of the following organizations:

- Executive Offices in Washington, D.C.
- Operating forces, including the Marine Corps, reserve components, and, in time of war, the U.S. Coast Guard (in peace, a component of the Department of Homeland Security)
- Shore establishment

The DON management evaluated the system of internal control in effect during the fiscal year as of the date of this memorandum, according to the guidance in Office of Management and Budget (OMB) Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control. The OMB guidelines were issued in conjunction with the Comptroller General of the United States, as required by the Federal Managers' Financial Integrity Act of 1982 (FMFIA). Included is our evaluation of whether the system of internal control for the DON complies with standards prescribed by the Comptroller General.

The objectives of the system of internal control for the DON are to provide reasonable assurance of:

- Effectiveness and efficiency of operations
- Reliability of financial and non-financial reporting
- Compliance with applicable laws and regulations
- Financial information systems compliance with the Federal Financial Management Improvement Act (FFMIA) of 1996 (Public Law 104-208)

The evaluation of internal controls extends to every responsibility and activity undertaken by the DON, and applies to program, administrative, and operational controls. The concept of reasonable assurance recognizes that (1) the cost of internal controls should not exceed the benefits expected to be derived, and (2) the benefits include reducing the risk associated with failing to achieve the stated objectives. Errors or irregularities may occur and not be detected because of inherent limitations in any system of internal controls, including those limitations resulting from resource constraints, congressional restrictions, and other factors. Projection of any system evaluation to future periods is subject to the risk that procedures may be inadequate due to changes in conditions, or deterioration in the degree of compliance. This statement of reasonable assurance is provided within the limits of the preceding description.

Governance

The DON implemented a comprehensive internal control governance structure to monitor risks, effectiveness of internal controls, remediation of deficiencies, and report progress in the annual Statement of Assurance (SOA). The governance structure and the roles and responsibilities of each governing body is illustrated in Figure 1.

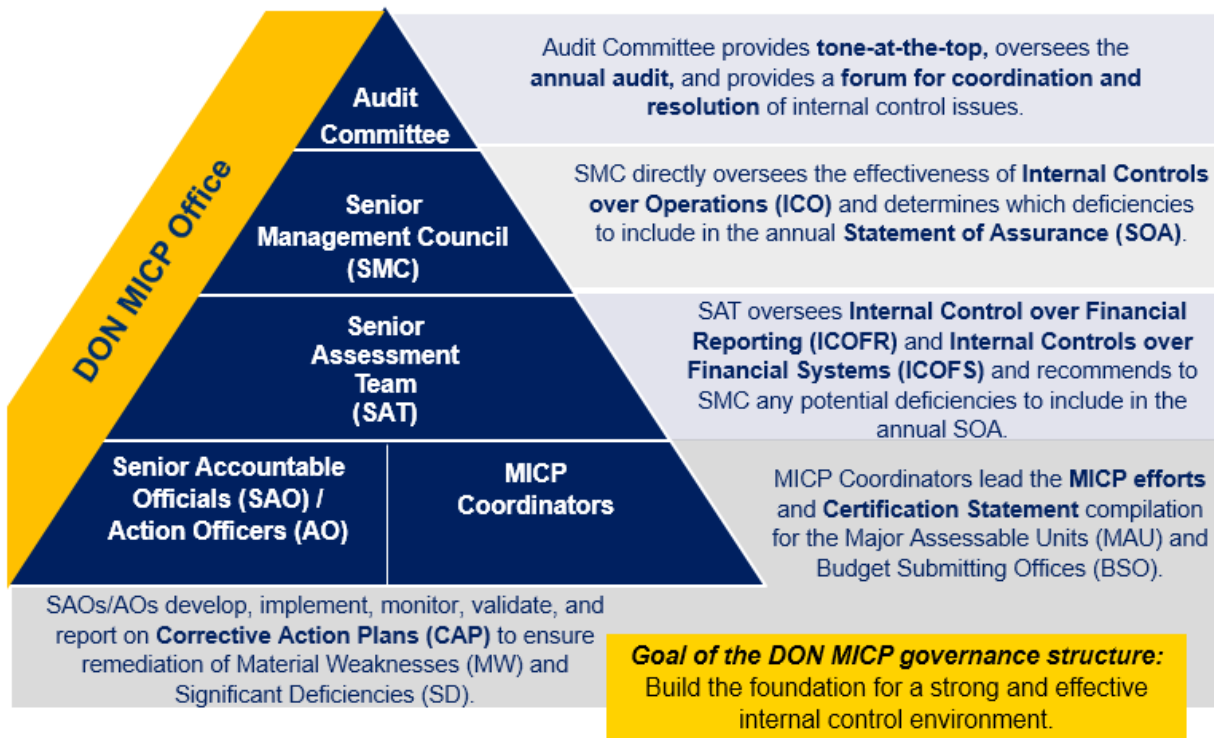


Figure 1: DON MICP Governance Structure

The DON Audit Committee oversees the annual audit of the financial statements and assists with enterprise resolution of obstacles to a clean audit opinion. The Audit Committee, tri-chaired by the Under Secretary of the Navy, Vice Chief of Naval Operations, and the Assistant Commandant of the Marine Corps, broadly represents the DON's senior-level functional expertise, providing comprehensive and dedicated oversight of the financial statement audit and a forum to discuss and resolve business process issues that impact financial reporting, accounting, and audit.

For purposes of assessing Internal Controls over Operations (ICO), the DON considers each of its Echelon I commands a Major Assessable Unit (MAU) (refer to ICO– Management Control Testing for a list of ICO MAU). A Senior Executive Service (SES) or Flag Officer from each of these MAUs comprise the DON's Senior Management Council (SMC), which is chaired by the Deputy Assistant Secretary of the Navy (Financial Operations) (DASN (FO)). The SMC oversees the DON Managers' Internal Control Program (MICP) and advises the Secretary of the Navy and the Assistant Secretary of the Navy (Financial Management and Comptroller) on program implementation, effectiveness, and reporting. The SMC is responsible for:

- Monitoring and validating the effectiveness of the DON's ICO processes
- Overseeing and confirming that DON MAUs conduct annual internal control assessments to identify key control objectives that support their functional responsibility
- Identifying deficiencies that merit reporting in the annual FMFIA SOA
- Monitoring and reviewing the implementation of corrective actions to remediate Material Weaknesses (MW) and Significant Deficiencies (SD)
- Determining when sufficient action has been taken to downgrade or close weaknesses and deficiencies

- Validating and approving the DON Internal Control Over Financial Reporting (ICOFR) and Internal Controls Over Financial Systems (ICOFS) MW and SD recommendations from the Senior Assessment Team (SAT)
- Reporting results to the Audit Committee

The SAT is the governing body that oversees FFMIA compliance activities associated with assessing ICOFR and ICOFS. It is comprised of Comptrollers for DON Budget Submitting Offices (BSO) (refer to “Management Control Testing: ICOFR” for a list of BSOs). The SAT is co-chaired by the DASN (FO) and the Deputy Assistant Secretary of the Navy (Financial Policy and Systems). The SAT provides similar oversight functions to the BSOs as the SMC provides to the MAUs (described above); however, the focus of the SAT is ICOFR and ICOFS.

Both the SMC and SAT meet at least quarterly to discuss Corrective Action Plan (CAP) remediation status, results of risk assessments and internal control testing, and to deliberate as to whether newly identified deficiencies warrant designation as MWs or SDs. While the SAT can recommend the approval or closure of a new or existing weakness or deficiency, the SMC is responsible for final approval.

Senior Accountable Officials (SAO) are DON Senior Executives or Flag Officers that have been assigned a specific weakness or deficiency, and are responsible for remediating the deficiency and for reporting remediation status to the SMC and SAT. The SMC and SAT MICP Coordinators are the working-level internal control representatives for their activity, ensuring risk assessments are completed, controls are operating effectively, deficiencies are identified and reported, corrective actions are developed and executed, and Certification Statement is prepared.

Guidance and Training

The DON created a MICP Certification Statement Guidebook (i.e. the Guidebook) for Fiscal Year (FY) 2017 to standardize and increase the effectiveness of the annual SOA process. The Guidebook provides guidance on reporting requirements based on the following elements outlined in OMB Circular No. A-123:

- Conducting a Risk Assessment
- Developing and implementing internal control testing
- Identifying an internal control deficiency and developing a CAP
- Reporting results and remediation status
- Preparing a MAU/BSO Certification Statement

The Guidebook provides detailed instructions and templates to facilitate SOA compilation and report the preliminary results for the risk assessments, testing, and deficiency status to the SMC and SAT.

The DON MICP Office provided multiple offerings of three instructor-led trainings to the MICP Coordinators and other interested stakeholders. The presentations are also available on the DON MICP SharePoint site with accompanying resource material.

- MICP 101: MICP Overview – An overview of the DON MICP, internal control and risk definitions, governance structure, responsibilities, reporting requirements, and resources.

- MICP 102: ICO Lifecycle – A high-level recap of the MICP 101 curriculum with a detailed walkthrough of the components of the lifecycle process, examples, and a relevant case study
- MICP 103: ICOFR/ICOFS Lifecycle – A high-level recap of the MICP 101 curriculum with a detailed walkthrough of the components of the lifecycle process, examples, and relevant case study.

Additional training specific to risk assessment, testing, deficiency identification, CAP development, and ad hoc requests from stakeholders were provided through working groups, office hours, site visits, office calls, in-person briefings, and bi-weekly MICP Coordinator meetings.

Risk Assessment Approach

The approach to this year's risk assessment is distinguished by a heightened emphasis on structured self-reporting, focusing on identifying risks impacting the achievement of an organization's business objectives and mission, assessing the impact and likelihood of identified risks, and introducing a series of risk mitigation strategies to strengthen internal controls. Additionally, BSOs were required to include some specific key risk areas to assist in monitoring the progress of certain DON-wide initiatives.

The DON conducted an assessment of internal reviews, audits, and inspections conducted by Naval Audit Service (NAVAUDSVC), Naval Inspector General, Naval Criminal Investigative Service, Department of Defense Inspector General, and the Government Accountability Office (GAO); and Notices of Findings and Recommendations (NFR) issued by Independent Public Accountants (IPA) during the financial statement audit to identify additional risks. These risks, along with the preliminary results of the risk assessments, were presented to the SMC and SAT to determine risks that should be captured/included in the SOA.

The DON is maturing the MICP risk assessment process by strengthening enterprise-wide risk identification and bridging any remaining gaps. The process will establish a common foundation, enabling consistent risk management application and training, and further the development of a risk-conscious management culture across the DON with increasing awareness and engagement.

Validation

During FY 2017, the SMC and SAT approved a process to address the independent validation of remediation for MWs and SDs. This process defined the requirement for SAOs/Action Officers (AO) to provide sufficient artifacts to support recommendations for downgrade or closure of deficiencies. The DON MICP Office assisted with the accumulation of these artifacts, the distribution of the validation results, and the development of recommendations to the SMC/SAT. The SMC/SAT assessed this information and determined whether the deficiency could be downgraded or closed or whether additional evidence was required.

Evaluation Prioritization Remediation Program

The Evaluation Prioritization Remediation (EPR) program provides centralized program management over NFRs and includes a tracking system for deficiency logging and remediation, and support for the Office of Primary Responsibility (OPR) and AOs throughout CAP design and

implementation. The EPR team developed and executed multiple trainings targeted toward OPRs and their AOs to provide a detailed view of the requirements of each in their roles. Multiple trainings were provided virtually over the course of several months during FY 2017, and consistent follow-up by an assigned EPR representative ensured OPRs and AOs had the support needed to accomplish remediation. In FY 2017 the EPR program has improved or implemented the following procedures:

- The EPR program restructured the deficiency universe database to allow for tracking at the audit report level, deficiency or finding level, and the recommendation level to allow for more efficient and accurate tracking of audit deficiencies and recommendations. To ensure accurate reporting of open recommendations, NFRs are reconciled monthly with GAO, Department of Defense Inspector General, and NAVAUDSVC reports.
- The EPR program sought to better capture a CAP's status in a more concise and accurate report. In FY 2017, the program developed a new scorecard providing a precise, one-page snapshot of the Navy's progress in remediating all NFRs received by an IPA.
- The EPR team enhanced the validation process, ensuring OPRs/AOs coordinate with relevant stakeholders to design the CAP, including root cause analysis and defining the steps to fully resolve the identified audit deficiencies. The program conducts validation procedures on evidentiary artifacts in parallel where feasible to provide timely and relevant feedback. The program also ensures OPRs are conducting operational effectiveness testing prior to validation by the Navy and testing by the IPA.

Entity Level Control Analysis

The GAO's Green Book, Section 10.09, defines Entity Level Controls (ELC) as controls that have a pervasive effect on an entity's internal control system and can influence the design and operating effectiveness of other controls. While ELCs are not controls at the process- or transaction-level, they enable and support these controls and create an internal controls culture throughout the DON. The overarching ELCs help set the tone and importance of internal controls through published policies, regular risk assessments, and programs to monitor internal controls (e.g. MICP). While the DON has been executing ELCs through its normal course of business, the DON ELCs were not documented or identified in a central location prior to FY 2017.

In March 2017, the DON began documenting ELCs, conducting interviews, and obtaining key supporting documents. The ELCs focus on areas such as ethics, standards of conduct, employee performance, governance structures, fraud monitoring and reporting, and organizational structures.

This process confirmed that there is a good foundation of ELCs across the DON. The DON has an environment of internal controls through tone-at-the-top, published policies and procedures, and the establishment of governance bodies that monitor risks and deficiencies. The DON will begin testing the operating effectiveness of these controls in FY 2018 by documenting MAU and BSO controls in place to ensure compliance with the ELCs identified this year, and obtaining evidentiary artifacts to support compliance.

Service Provider Oversight

The DON established oversight of third-party Shared Service Providers (SSP) that process, store, and transmit Navy financial data. Specifically, the Navy obtained the requisite Statements on Standards for Attestation Engagements No. 16 (SSAE16) reports to review and document the DON's

understanding of the potential risks to ICOFR and ICOFS. In order to rely on SSAE16 reports, Complementary User Entity Controls (CUEC) must be designed, implemented, and operating effectively throughout the Navy. As such, Navy business process standards (i.e. process maps, data dictionaries, process cycle memorandums, and controls crosswalks) are being updated to reflect the alignment of Navy control points to the CUECs.

For General Information Technology Controls (GITC), the Navy cross-walked 233 CUECs for 17 systems to Navy Enterprise IT Standards, Federal Information System Controls Audit Manual (FISCAM) and National Institute of Standards and Technology (NIST) guidance to develop Guidebooks that set overall Navy GITC CUEC policies. These Guidebooks were distributed to the BSOs to develop and implement local procedures that adhere to this policy. The BSOs were expected to submit a confirmation statement to the Office of Financial Operations by the end of the FY to validate that implementation was complete and their systems users were executing these controls. These controls will be tested for operating effectiveness in FY 2018. The DON is also finalizing service level agreements to formalize third-party service provider roles and responsibilities.

Anti-Deficiency Act Violations

The DON had no Anti-Deficiency Act (ADA) violations for FY 2017 and no incomplete corrective actions from prior year ADA violations to report.

Internal Control Evaluation

Management Control Testing: ICO

The Department of the Navy (DON) management evaluated the system of internal controls in accordance with the guidelines identified above. The results indicate that the system of operational internal controls of the DON, in effect as of the date of this memorandum, taken as a whole, complies with the requirement to provide reasonable assurance that the above-mentioned objectives were achieved with the exception of the five Material Weaknesses (MW) reported in the “Operational Material Weaknesses” section. This position on reasonable assurance is within the limits described in the introduction paragraph.

Primary responsibility for Internal Controls over Operations (ICO) execution resides within a network of 17 Major Assessable Units (MAU):

- Chief of Naval Operations (CNO)
- Commandant of the Marine Corps (CMC)
- Office of the General Counsel (OGC)
- Assistant Secretary of the Navy (Research, Development, and Acquisition) (ASN (RD&A))
- Assistant Secretary of the Navy (Financial Management and Comptroller) (ASN (FM&C))
- Assistant Secretary of the Navy (Energy, Installations, and Environment) (ASN (EI&E))
- Assistant Secretary of the Navy (Manpower and Reserve Affairs) (ASN (M&RA))
- Deputy Under Secretary of the Navy (Management) (DUSN (M))
- Deputy Under Secretary of the Navy (Policy) (DUSN (P))
- Office of the Judge Advocate General (OJAG)
- Naval Inspector General (NAVINSGEN)
- Office of Legislative Affairs (OLA)
- Office of Naval Research (ONR)
- Navy Office of Information (CHINFO)
- Naval Audit Service (NAVAUDSVC)
- Naval Criminal Investigative Service (NCIS)
- Office of Small Business Programs (OSBP)

The DON’s 17 MAUs define the Assessable Units (AU) within their organization, based on those most critical to the organization’s mission and strategic objectives. The MAUs executed their internal control process which includes risk assessment, control testing, deficiency identification and subsequent corrective actions, and reporting results in their Certification Statement. These Certification Statements and their supporting enclosures are the primary source documents for the determination of reasonable assurance over the effectiveness of the DON’s non-financial operations and processes.

DON-Wide Initiatives

The DON tests key internal controls within various business processes, using a variety of testing methodologies, and maintains documentation to support its evaluation and level of assurance. Below are highlights of ICO internal control test focus areas for the Fiscal Year (FY) 2017 testing cycle:

- **Procurement Performance Management Assessment Program (PPMAP):** The Deputy Assistant Secretary of the Navy for Acquisition and Procurement conducts regular testing of the performance and execution of DON-wide contracts using the PPMAP review process. This process is guided by the PPMAP internal operation procedure, which is an assessment of key contract management policies, processes, procedures, and functions, to include (but not limited to) tone-at-the-top, mission and functions, governance effectiveness, small business compliance, and Contracting Officer Technical Representative responsibilities, and metric tracking.

All organizations that manage and execute contracts and acquisitions across the DON are reviewed at least once triennially. A follow-up review is held one year after the initial assessment to determine whether the recommendations were resolved and if new findings were uncovered. The PPMAP process also identifies best and promising practices that are shared DON-wide.

Artifacts from the most recent reviews demonstrate that the process is identifying issues and responsible parties are held accountable for their remediation. The SMC concurred that this process provides reasonable oversight and testing over the contract management process. This level of assessment and review supported the SMC's decision to close the ICO MW, and used PPMAP artifacts to support closure of the ICO contract management MW in this area. Results of the PPMAP reviews will continue to be reported to the DON Managers' Internal Control Program (MICP) to ensure this control continues to mitigate related contract management risks.

- **Government Commercial Purchase Card and Government Travel Charge Card:** The DON has undertaken initiatives to monitor the purchase card program and reduce travel card delinquencies.
 - Naval Supply Systems Command (NAVSUP), as the DON Executive Agent, established purchase card policy and guidance that requires all purchase card transactions be screened for potential fraud, misuse, or abuse violations utilizing an intuitive, automated online tool. Based on certain transaction attributes, this tool identifies potential violations to be further researched. Per established policy and guidance, monthly and semi-annual review requirements for Approving Officials and Agency/Organization Program Coordinators (A/OPC) have limited the estimated rate of potential violations to 0.13% of the more than one million purchase card transactions annually across the DON enterprise.
 - The Navy has consistently maintained the lowest travel card delinquency rates within the DoD through the dedicated work of the A/OPCs. The Navy performs monthly reviews and generates various reports to help identify commands that require additional assistance in combatting delinquency. These periodic reports include a weekly all-account status report for centrally billed accounts, and monthly Accounts Payable aging analysis, split disbursement, and mission critical reports for individually billed accounts.
 - Individual MAUs evaluated their purchase card and travel card program internal controls with results indicating that permission levels are correct, travelers largely submitted vouchers within the five-day window, and debts were repaid within 30 days. However, timely review and approval of vouchers is needed.

- **Human Resource Reviews:** The Office of Civilian Human Resources (OCHR) performs proactive compliance monitoring of civilian human resources manuals, policies, and requirements which are leveraged by other organizations, including NAVINSGEN and NAVAUDSVC. Four OCHR divisions meet annually to develop the annual assessment guide that serves as the standard for reviewing the areas to be evaluated. The standard review includes classification, compensation, employee relations, and performance management. If the Human Resource Office (HRO) processes Workers' Compensation, a review of Federal Employees Compensation Act (FECA) files is also performed. For example, the OCHR assessment team performs a quality review of employee position descriptions to employee qualifications at selected BSOs. BSOs are reviewed on a five-year cycle. For each BSO, a sample of HROs is selected for on-site assessments.

BSOs are also required to submit written self-assessments to OCHR between years two and three of the assessment cycle as well as an additional self-assessment based on the specific assessment to be performed prior to OCHR's arrival to leverage during on-site reviews. Additional spot check reviews may be conducted to confirm conclusions based on cases sampled during the on-site assessments. OCHR provides a checklist of findings which must be rectified within 60 days in addition to recommended actions that would enhance and strengthen services provided.

MAU Initiatives

In addition to the above testing performed across the DON, MAUs performed their own internal testing in the FY 2017 cycle. Examples include:

- **Security Controls:** Several MAUs identified security controls as a major internal control testing focus area. Areas tested this cycle, but not resulting in any significant deficiencies, included:
 - Classified document courier operations
 - Insider threats control procedures
 - Security breach controls
 - Evidence locker inventory and inspections
 - Legal litigation security compliance
- **Civilian Performance Plans and Appraisals:** Some MAUs performed inspections of civilian performance measurement, which focused on compliance with Navy appraisal guidelines and the adequacy of those reviews.
- **Document Retention:** Document retention tests focused on policy adequacy and effectiveness as well as the ability to retrieve key supporting documents across business segments, to include (but not limited to) contract management, legal decisions, financial disclosures, training, requisition requests, logs, and receipts.
 - For example, regarding contract management, one MAU tested their activity controls over document retention policies, procedures, communication mechanisms, training, and reviews during this cycle. The Contracting Officer Representatives reviewed and examined a sample set of Monthly Status Reports and supporting documentation and

deliverables listed in the reports. The findings indicated that various deliverables could not be located when asked to produce a printed or electronic copy. A Corrective Action Plan was put in place to correct this deficiency.

Management Control Testing: ICOFR

The Department of the Navy (DON) management evaluated the system of financial reporting internal controls in accordance with the guidelines identified above. The results indicate the DON's system of internal controls, in effect as of the date of this memorandum, taken as a whole, complies with the requirement to provide reasonable assurance that the above-mentioned objectives were achieved with the exception of the 24 Material Weaknesses (MW) reported in the "Financial Reporting Material Weaknesses" section.

The DON's assessment of Internal Control over Financial Reporting (ICOFR) includes the following 19 Budget Submitting Offices (BSO) as Assessable Units (AU):

- Navy Bureau of Medicine and Surgery (BUMED)
- Bureau of Navy Personnel (BUPERS)
- Commander, Navy Installations Command (CNIC)
- Department of the Navy Assistant for Administration (DON/AA)
- Fleet Forces Command (FFC)
- Field Support Activity (FSA)
- Naval Air Systems Command (NAVAIR)
- Naval Facilities Engineering Command (NAVFAC)
- Naval Sea Systems Command (NAVSEA)
- Naval Supply Systems Command (NAVSUP)
- Naval Intelligence Activity (NIA)
- Navy Systems Management Activity (NSMA)
- Office of Naval Research (ONR)
- Commander, U.S. Pacific Fleet (PACFLT)
- Commander, Navy Reserve Force (RESFOR)
- Space and Naval Warfare Systems Command (SPAWAR)
- Naval Special Warfare Command (SPECWAR)
- Strategic Systems Programs (SSP)
- United States Marine Corps (USMC)

In Fiscal Year (FY) 2017, the DON continued to build upon prior year progress in improving ICOFR, maintaining focus on its audit objectives and on a robust internal control program critical to success and sustainability. Internal controls are a cornerstone of the DON's audit readiness program and a key input to its many audit related initiatives.

The DON's 19 BSOs define the AUs within their organization based on those most critical to the BSO's mission and strategic objectives. The BSOs executed their internal control process, which includes risk assessment, control testing, deficiency identification and subsequent corrective actions, and reporting results in their certification statement. These certification statements and their supporting enclosures are the primary source documents for the Secretary of the Navy's determination of reasonable assurance over the effectiveness of the DON's financial operations and processes.

The DON continues to maintain and enhance its standard business processes. Recently, the DON documented its Navy Working Capital Fund (WCF) Supply Management inventory process, and

updated its Fund Balance with Treasury (FBwT) and Financial Statement Compilation and Reporting process maps to align with its ongoing financial improvement efforts. Further, the DON worked with its service providers to ensure its business process documentation stays in alignment with the services they provide; documentation is being updated to reflect the alignment of Navy control points to Complementary User Entity Controls. The DON's BSOs participate in monthly change control board meetings designed to obtain concurrence on all recommended process changes. The DON's standard business processes serve as the foundation for BSO internal control testing, and they help to improve the overall control environment.

The DON tests key internal controls within various business processes, using a variety of testing methodologies, and maintains documentation to support its evaluation and level of assurance. Below is a selection of internal control areas tested during the FY 2017 testing cycle:

- Accounts Receivable (A/R)
- Civilian Payroll (CIVPAY)
- Delegation of Authority (DoA)
- Military Pay (MILPAY)
- Funds, Receipt, and Distribution (FRD)
- General Equipment (GE)
- Operating Materials and Supplies (OM&S)
- Reimbursable Work Order (Performer) (RWO-P)
- Transportation of Things (ToT)
- Financial Statement Compilation and Reporting (FSCR)
- Asset Management (AM)
- Contract/Vendor Pay (CVP)
- Document Retention
- Fund Balance with Treasury (FBwT)
- Government Purchase Card (GPC)
- Journal Vouchers (JV)
- Military Standard Requisitioning and Issue Procedures (MILSTRIP)
- Reimbursable Work Order (Grantor) (RWO-G)
- Transportation of People (ToP)

DON-Wide Initiatives

Below are highlights of ICOFR testing and results for the FY 2017 cycle:

- **Accounts Receivable (A/R):** The Navy performed substantive testing of 428 A/R transactions recorded across all General Fund (GF) and Navy WCF commands and BSOs for Q1 FY 2016. Test results indicated that policies and procedures were not in place to:
 - Classify General Ledger (GL) transactions as federal or non-federal
 - Maintain and monitor document retention
 - Management approval of financial transactions recorded into the accounting system in a sufficient, appropriate, and timely manner.

Internal Notices of Findings and Recommendations (NFR) related to these areas were issued to multiple BSOs, who are responsible for developing corrective actions to remediate the issues. Additional testing will be performed in FY 2018 to validate implementation of these corrective actions. Combined with the Defense Finance and Accounting Services' (DFAS) inability to produce a comprehensive A/R report that is fully reconciled and aged, these issues led the DON to report a Significant Deficiency in this area.

- **Accounts Payable (A/P):** The Navy is currently performing a look-back analysis through statistical sampling and testing of subsequent cash disbursements to determine if transactions should have resulted in a quarter-end accrual. The testing results will be aggregated to develop an A/P estimate that will be recorded in the FY 2017 financial statements. The precision of the estimate recorded in FY 2017 will be confirmed by further testing of subsequent cash disbursements for FY 2018. Our initial observations noted policies and procedures were not in place to:

- Establish and maintain a comprehensive accrual methodology
- Establish a process to perform a look-back analysis to confirm the precision of the estimate

Once the Navy records the FY 2017 estimate, internal findings and corrective actions will be developed to assist the BSOs in remediation efforts. Initial testing and analysis indicates A/P may be materially understated, which led the DON to report a MW in this area.

- **Asset Management (AM):** The DON is executing multiple corrective actions in various asset areas to support Beginning Balance audit readiness and to establish a sustainable environment across all BSOs. Examples of testing performed in FY 2017 to support these efforts include:
 - **Real Property (RP)** – Statistical samples were gathered to ensure supporting documentation was available to prove Existence and Completeness (E&C) and validate placed-in-service dates resulting in a 91% pass rate.
 - **WCF Inventory (WCF-INV)** – Statistical samples were gathered to ensure supporting documentation was available to prove E&C. The pass rate was below historical trends, which led to continued efforts at the BSOs to execute corrective actions prior to FY 2018 testing.
 - **General Equipment (GE)** – BSOs with GE (other than Remainder) were required to perform a 100% inventory. While the DON can support E&C of these assets, additional corrective actions were necessary to support the completion of an inventory in a more timely and complete manner (e.g. updating policy and procedures for conducting an inventory and providing supporting documentation).
- **Manual Journal Vouchers (JV):** The DON and DFAS continued the sustainment of Compliance and Oversight testing to increase the quality and supportability of manual adjustments (JVs) posted both in the field-level accounting systems and on-top in the Defense Departmental Reporting System (DDRS). These efforts not only continue to improve overall internal controls and supporting documentation, but have proven to be a pivotal turning point that has increased the understanding, sense of urgency, and accountability for manual adjustment processing across the DON enterprise.

This on-going collaboration was achieved by:

- Policy review to ensure the published policy and guidance for recording business entries including adjustments reflects lessons learned and current guidance

- Sustainment of quarterly Quality and Compliance testing for adjustments booked in field-level accounting systems (e.g. Navy Enterprise Resource Planning (ERP), Standard Accounting Budgeting Reporting System (SABRS)), including both GF and WCF
- Sustainment of monthly Quality and Compliance testing for adjustments booked on-top in DDRS, including both GF and WCF

The improvement and monitoring of these activities will support the remediation efforts for the weakness related to procedures to record JVs.

BSO Initiatives

The BSOs implemented a variety of test plans and methodologies tailored to controls being tested. Test plans identified relevant stakeholders, documentation, or transactions to be reviewed, and the mechanisms by which testing would occur. Findings where control gaps exist ranged from an inability to locate required documentation, a lack of established policies and procedures to document processes, insufficient maintenance and retention of documents, and untimely approval of financial transactions recorded into the accounting system. Alternatively, internal testing led to improvements and command reductions/eliminations of segregation of duty findings for the Defense Travel System and Transportation of People.

Additional examples of testing initiatives being performed at BSOs include:

- **Reimbursable Work Order (RWO):**
 - Performing quarterly control testing on both the grantor and performer processes.
 - Grantor testing focuses on ensuring the goods and/or services being procured and the period of performance are consistent with the limitations of the assigned Treasury account number.
 - Performer testing focuses on verifying that the Approving Official was performing adequate reviews to ensure the Performance Work Statement could be delivered as described and that the orders were accepted properly.
 - Developing monthly/quarterly receipt and acceptance billing processes and supplementary desk guides to enhance knowledge across the processes.
 - Providing RWO policy training for their workforce.
- **Delegation of Authority:** Numerous BSOs at the DON have implemented robust plans for testing delegation of authority. Annual tests have been conducted for various areas, including civilian payroll, receivables, etc. BSOs have remained vigilant in establishing and implementing policies and procedures to ensure delegations of authority are accurately completed, documented, and retained. There was a comprehensive review into personnel roles to ensure duties do not conflict in processes or systems.
 - Some BSOs have established a command person of authority to annually validate/test DD 577, "Appointment/Termination Record – Authorized Signature," forms.
 - One BSO tested DD 577s in FY 2017 for a period covering July - October 2016 in the following process areas: contract administration; consumables; civilian payroll; and federal receivables. The FY 2017 testing resulted in a compliance rate of 83% overall throughout the various processes. While continued work is required to improve DD 577

results and maintain a positive trend towards full compliance, the DON is confident it is reducing risk in this area and progressively moving toward full compliance.

Impartial Verification & Validation Testing

In FY 2017, the DON expanded its Impartial Verification and Validation (IV&V) efforts as it prepared for a full financial statement audit. With a focus on beginning balances, the DON established E&C procedures and baseline values of its large-scale assets. The DON also applied IV&V testing and Generally Accepted Accounting Principles compliant processes to validate and reconcile its FBwT, statistically estimate A/P balances, and confirmed that other material line items were reported accurately.

IV&V performs validation testing and provides recommendations to the BSOs, if improvements are required, to ensure white papers and other key supporting documentation are complete, accurate, and can pass the scrutiny of an audit. Additionally, they validate whether DON CAPs and program-wide Plan of Action and Milestones (POA&M) include all the actions that may be required to correct a deficiency or get the program audit ready. This process includes coordinating with the BSOs to review and monitor remediation and POA&Ms to ensure audit readiness efforts are on schedule and focused on the intended outcomes.

Management Control Testing: ICOFS

The Department of the Navy (DON) management evaluated the system of financial systems internal controls in accordance with the guidelines identified above. The results indicate the DON's system of internal controls, in effect as of the date of this memorandum, taken as a whole, complies with the requirement to provide reasonable assurance that the above-mentioned objectives were achieved with the exception of the eight nonconformances reported in the "Financial Management Systems Material Weaknesses/ Nonconformances" section. The DON's assessment of Internal Controls of Financial Systems (ICOFS) includes the 19 Budget Submitting Offices (BSO) as Assessable Units (AU) listed in the "Management Control Testing: ICOFR" section.

The DON made considerable progress during the Fiscal Year (FY) 2017 reporting period towards improving ICOFS. In conjunction with the Office of the Secretary of Defense and service providers, we continue to assess relevant financial system controls to ensure compliance with the Office of Management and Budget (OMB) Circular No. A-123, Federal Information System Controls Audit Manual (FISCAM), Financial Improvement and Audit Readiness (FIAR), National Institute of Standards and Technology (NIST) Risk Management Framework (RMF), and Financial information systems compliance with the Federal Financial Management Improvement Act of 1996. ICOFS is the foundation of auditability for financial systems. Consequently, the following ICOFS efforts to facilitate an auditable financial systems environment are underway.

DON-Wide Initiatives

The DON maintains several initiatives that impact the DON, specifically concerning providing Information Technology (IT) control governance in the form of publishing Enterprise IT Control Guidance and maintaining an inventory of IT systems and their financial significance. Below are the highlights and focus areas for the FY 2017 cycle:

- **IT Control Governance:** The DON continued the work of the Financial Information Systems Working Group (FISWG), co-chaired by designees from the Assistant Secretary of the Navy (Financial Management and Comptroller) (ASN (FM&C)) and the DON Chief Information Officer. The FISWG addressed enterprise IT control guidance for NIST Control Families, funding for IT controls/audit requirements, and the RMF transition. As a result of this effort, the ASN (FM&C), Assistant Secretary of the Navy (Research, Development, and Acquisition), and the Deputy Under Secretary of the Navy/Deputy Chief Management Officer issued the joint memorandum, "Auditability of Financial IT Systems and Transition to RMF."

This memorandum synchronizes the Navy's transition to RMF and the lessons learned from the IT control assessments of key financial systems by directing the development of supplemental NIST control guidance. This "best practice" Enterprise IT Control Guidance was updated in FY 2017 since its original publication in FY 2015. These 18 guidebooks provide supplemental financial statement audit-based guidance for the control families identified in NIST SP 800-53 Rev. 4. System owners will utilize this guidance in conjunction with the RMF process to standardize practices across the DON to comply with financial statement audit standards, improve the control environment, and ensure data integrity.

- **Inventory of IT Systems:** The DON established an inventory of DON IT systems relevant to its financial statements, including key service provider-owned systems to document the flow of financial data through its IT systems. The DON continues to refine this inventory by developing clearly defined scoping criteria and closely examining the systems environment. This audit-relevant methodology includes the review of financial transactional information to assess materiality to financial reporting and audit readiness. The inventory of relevant systems forms the basis for the DON's overall IT control improvement framework, specifically relating to identifying which systems to prioritize and dedicate resources. During the FY 2017, period the DON updated the DON IT systems based on updated financial information, questionnaires, and feedback.

BSO/System Owner Initiatives

BSOs/System owners conducted in a variety of assessments, validations, and remediation activities by organization and systems. Specifically, FY 2017 efforts focused on IT Notices of Findings and Recommendations (NFR) remediation and validation, systems transition to the RMF, Enterprise Continuous Monitoring Programs, and Blue Book assessments. Below are the highlights for the FY 2017 cycle:

- **IT NFR Remediation and Validation:** The impacted system owners were responsible for interpreting NFRs and identifying specific steps to be taken to address the weakness(es) identified. After system owners perform command-level testing of their remediation activities, the DON performs additional validation testing to ensure the deficiencies are resolved before submitting for closure. Following this methodology during the FY 2017 period, the DON has been able to close approximately 74 NFRs.
- **Financial Management Improvements to RMF:** To improve the IT control environment for financially relevant systems, the DON developed a Financial Management (FM) Overlay to the NIST RMF. The FM Overlay aids in developing risk management strategies to address their specific protection needs for systems with financial impact within defined risk tolerances identified by each respective system owner.

These risk management strategies were developed by leveraging the NIST, FISCAM, and the DON Enterprise IT Controls Standards. The implementation of the FM Overlay supports the RMF Transition Initiative and encompasses additional security requirements applicable to assessing FM information systems. The FM Overlays are built as a fully-specified set of security controls, control enhancements, and supplemental guidance derived from the application of NIST Special Publication 800-53 Rev. 4, and DON Enterprise IT Control Standards.

The FM Overlays are specific to the following most critical control families:

- Access Control
- Audit and Accountability
- Configuration Management
- Identification and Authentication

The system owners are responsible for applying the 91 FM Overlay controls to become accredited. During the FY 2017 timeframe, NAVSUP achieved full accreditation for Standard Procurement System (SPS) NAVSUP. System owners for more than 32 DON financially relevant systems continue to work on their RMF transition process to become fully accredited.

- **Enterprise Continuous Monitoring Program (ECMP):** The ECMP focuses on assessing the IT control posture of its financial systems. Leveraging the DON's Enterprise Control Standards (ECS), the ECMP team performed assessments on DON financially relevant systems to prepare for transition to RMF and future financial statement audits.

During the FY 2017 period, the DON ECMP team assessed two systems (Logistics Data System and Military Sealift Command Financial Management System) against the DON Enterprise IT Control Standards control families of Audit and Accountability, Access Control, Configuration Management, Identification and Authentication, and Security Assessment and Authorization (CA). Between the two systems, the DON ECMP team tested more than 246 controls which resulted in the creation of more than 36 Corrective Action Plans (CAP). These CAPs will be the backbone in strengthening the system's internal control environment before they fully transition to RMF and are audited by the financial statement auditor.

- **Blue Book Assessments:** During FY 2017 the DON performed Blue Book assessments for several systems documented below. The assessment team reviewed the applications' compliance against applicable Blue Book requirements and FISCAM Business Process application controls (BPAC). Blue Book contains numerous requirements issued by the OMB, GAO, Department of Treasury, and Department of Defense Financial Management Regulation, etc. Findings were issued for systems that were not compliant or only partially compliant with one or more Blue Book requirements or BPACs. While additional applications are in the process of being assessed the following DON system assessments are completed or scheduled for completion by the end of FY 2017:

- Navy Standard Integrated Personnel System (NSIPS)
- Fund Administration and Standardized Document Automation (FASTDATA)
- SeaPort
- SPS NAVAIR
- SPS NAVSEA
- SPS NAVSUP
- SPS SSP

Overall Assessment of Internal Control

Overall Assessment of a System of Internal Control		
Internal Control Evaluation	Designed & Implemented (Yes/No)	Operating Effectively (Yes/No)
Control Environment	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	<i>Not Assessed</i>
Risk Assessment	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
Control Activities	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>
Information and Communication	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	<i>Not Assessed</i>
Monitoring	Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>	<i>Not Assessed</i>
Are all components above operating together in an integrated manner?	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>

Overall Evaluation of a System of Internal Control	
Overall Evaluation	Operating Effectively (Yes/No)
Is the overall system of internal control effective?	Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>

Basis for Assessment

- Control Environment:** The DON implemented a robust governance process that is strengthening tone-at-the-top and management commitment. Guidance, training, and other communications are building a strong foundation for the Managers' Internal Control Program (MICP) community and stakeholders across the organization. Control environment Entity Level Controls were documented in FY 2017. Tests of operating effectiveness will be performed in FY 2018.
- Risk Assessment:** The DON executed its first risk assessment across the entire organization, however it was limited in scope for financial systems and financial reporting aspects. While this process has been designed and implemented, it will not be considered to be operating effectively until all Major Assessable Units (MAU) and BSOs are performing a full scope risk assessment. Full scope risk assessment will be required of all MAUs and BSOs in FY 2018.
- Control Activities:** The DON recognizes the identification, execution, and assessment of control activities require significant improvement, as demonstrated by our portfolio of Material Weaknesses (MW).
- Information and Communication:** The DON is providing communication at all levels from the ASNs in the Audit Committee; to the Senior Executive Service members and Flag Officers in the SMC/SAT meetings; to the MICP Coordinators through bi-weekly meetings, guidance, training, and outreach; and to all other stakeholders through video messages that explain internal controls that will appeal to all functions and operations within the Navy.

Information and communication entity level controls were documented in FY 2017. Tests of operating effectiveness will be performed in FY 2018.

- **Monitoring:** The DON has designed and implemented monitoring procedures across the organization. Monitoring entity level controls were documented in FY 2017. Tests of operating effectiveness will be performed in FY 2018.
- **Overall Evaluation:** As evidenced by the portfolio of MWs and Significant Deficiencies, there is significant remediation required across the DON; however, the overall system of controls will improve as the DON MICP continues to mature. The Navy is confident that the continued improvement in each of the internal control elements will result in an overall system of internal controls that is operating effectively, other than in those areas with significant inherent risk or corrective actions that have external dependencies.

Significant Managers' Internal Control Program Accomplishments

Journal Voucher Auditability

Internal Control Reporting Category: Budget-to-Report

Description of the Issue: Journal Vouchers (JV) are summary-level accounting entries in the financial records of the Department of the Navy (DON). Deficiencies in financial management systems and business processes resulted in an unacceptably high number of JVs recorded in the DON financial statement compilation process, increasing audit risk.

Accomplishment: During Fiscal Year (FY) 2017, the DON implemented improvements at both the field-level and on-top in Defense Departmental Reporting System (DDRS) to:

- (1) Reduce or eliminate JVs when possible
- (2) Improve supportability of necessary JVs
- (3) Improve governance over high-dollar JVs

The DON partnered with the Defense Finance and Accounting Services (DFAS) to identify root causes and remediate issues in both supportability and elimination of on-top DDRS JVs. This partnership enabled the DON to implement business process and system changes which resulted in a 25% reduction of on-top DDRS JVs and increased supportability of JVs, which could not be eliminated.

The DON directed Budget Submitting Offices (BSO) to assess JVs processed in field-level accounting systems, setting a reduction target of 35% over the next year. This direction has increased the sense of urgency, accountability, understanding, and quality of field-level JVs as a whole. The DON is working with the BSOs to categorize and prioritize necessary system changes, business process changes, and identify those JVs that are acceptable business entry JVs.

The DON also instituted improved governance and accountability over high-dollar JVs. The DON now requires any on-top DDRS JVs over \$1 billion recorded by DFAS to be approved by the DON, and any JVs over \$1 billion recorded in field-level accounting systems to be acknowledged by the BSO Commander and the Principal Deputy Assistant Secretary of the Navy (Financial Management and Comptroller).

DON Travel Card Program

Internal Control Reporting Category: Procure-to-Pay

Description of the Issue: Ineffective travel card program internal controls led to Government Travel Charge Card delinquencies.

Accomplishment: The DON instituted a greater emphasis on strengthening front-end travel controls and delinquency management to reduce the DON's travel card delinquencies, resulting in a \$2.8 million increase to the DON's Citibank refund.

The DON developed and implemented enhanced reports and review processes for the travel card program coordinators, approvers, and card holders, including:

- A Defense Travel System approving official's checklist, which helped approving officials understand their compliance responsibilities for split disbursement
- Reports that helped travel card program managers understand status and follow-up on specific delinquencies.

As a result of the strong management focus and enhanced tools and reviews, the DON has achieved the lowest delinquency rates in the Department of Defense (DoD).

- DON Centrally Billed Account delinquency rate 0.3575%; DoD rate 11.628%
- DON Individually Billed Account delinquency rate 0.9725%; DoD rate 1.33%

DON maintained average split disbursement rate of 94.8%; the DoD rate is 88.9%.

Sail the Great Green Fleet

Internal Control Reporting Category: Communications; Force Readiness; Acquisition Research, Development, Test, and Evaluation

Description of the Issue: Agile, globally-engaged Navy and Marine Corps forces are essential to national security. The DON must seize all reasonable opportunities to reduce logistical constraints imposed by the procurement, storage, and delivery of energy to naval forces. The DON must continue to improve our energy posture to enhance warfighter freedom of action and maneuverability around the world.

Accomplishment: The DON Great Green Fleet pilot has increased global awareness and fleet energy efficiency by increasing underway steaming hours by 9.5% to date. This reduced fuel consumption by more than 8.8 million gallons for Military Sealift Command alone. Overall, the Navy increased its fuel efficiency by 1.4% during the year.

For the first time, the Navy procured 77 million gallons of a synthetic fuel blend produced from waste beef fat from domestic farmers and ranchers as part of the normal operational bulk fuel purchase. This pilot program has had an impact both nationally and globally. Not only has the DON proven to be a good steward of scarce natural resources, but it also led by example by increasing energy conservation practices and awareness, while increasing mission effectiveness and reducing costs.

Hazardous Noise

Internal Control Reporting Category: Acquisition

Description of the Issue: The DON did not have a process in place to effectively mitigate hazardous noise risks posed by major weapon systems. Additionally, the audited weapon systems program offices did not fully comply with requirements to mitigate identified noise hazards during the acquisition process. As a result, these conditions may contribute to a hazardous noise exposure environment that may, according to the Naval Safety Center, cause permanent hearing loss for Sailors and Marines.

Accomplishment: The DON reengineered the controls around hazardous noise to address new guidance and reduce hearing injuries. The DON created governance, policy, metrics, monitoring, system enhancements, and other tools to ensure noise control guidelines were developed, managed, and followed. To date, the DON has demonstrated that hearing conservation efforts throughout the DON are working effectively.

In FY 2013, the Hearing Conservation and Noise Abatement Flag Level Steering Board established five hearing readiness Measures of Effectiveness. Using these measures, the DON's hearing injury rates have declined by 5.7%.

A Risk Management Information (RMI) System is being developed which will house the existing measures and assist with further tracking. The RMI has a full operational capability date of FY 2018.

The Attenuating Hazardous Noise material weakness was downgraded to a significant deficiency during this period. The DON has demonstrated that hearing loss mitigation efforts across the DON have been effective, and the only remaining improvement required to fully address the deficiency is to implement MIL-STD-1474E across the DON.

Material Weaknesses and Corrective Action Plans

Operational Material Weaknesses

The following table lists the Material Weaknesses (MW) in Internal Controls over Operations (ICO) and incorporates changes from the weaknesses reported in the Fiscal Year (FY) 2016 Department of the Navy (DON) Statement of Assurance (SOA).

Effectiveness of Internal Controls over Operations (FMFIA Section 2)					
Statement of Assurance: Modified Assurance					
Reporting Category	FY 2017 Beginning Balance	New	Resolved	Reassessed	FY 2017 Ending Balance
Comptroller and Resource Management	1				1
Contract Administration	2		(1)		1
Security	0	1			1
Acquisition	1			(1)*	0
Communications	1		(1)		0
Manufacturing, Maintenance, and Repair	1				1
Personnel and Organizational Management	1				1
Total ICO Material Weaknesses	7				5

*Attenuating Hazardous Noise in Acquisition and Weapon System Design was reclassified by the Senior Management Council (SMC) as a Significant Deficiency (SD). The SMC will continue to monitor progress made on this deficiency.

Uncorrected Material Weaknesses Identified During the Period			
Internal Control Reporting Category	Title of Material Weakness	Targeted Correction Date	Page #
Security	Data Protection	Q4 FY 2018	27

Uncorrected Material Weaknesses Identified During Prior Periods					
Internal Control Reporting Category	Title of Material Weakness	First Year Reported	FY 2016 Targeted Correction Date	Revised Targeted Correction Date	Page #
Manufacturing, Maintenance, and Repair	Depot Level Maintenance	FY 2016	Q1 FY 2018	Q4 FY 2020	29
Personnel and Organizational Management	Military Pay and Personnel	FY 2016	Q2 FY 2021	Q1 FY 2023	31
Comptroller and Resource Management	DON Oversight and Management of Improper Payments	FY 2015	Q4 FY 2017	Q3 FY 2018	33
Contract Administration	Execution of Husbanding Contracts – Husbanding Service Providers	FY 2016	Q4 FY 2017	Q2 FY 2019	35

Material Weaknesses Corrected During the Period			
Internal Control Reporting Category	Title of Material Weakness	Targeted Correction Date	Page #
Contract Administration	Contract Management – Service Contracts	Q3 FY 2017	37
Communications, Intelligence, and/or Security	Personally Identifiable Information (PII)	Q3 FY 2017	39

Uncorrected Material Weaknesses Identified During the Period

Title of Material Weakness	
Data Protection	
Description of Material Weakness	
Similar to the Department of Defense (DoD), inspections, reports, and lessons learned reveal that the Department of the Navy (DON) features Department-wide systemic shortfalls in implementing cybersecurity measures to guard its data protection environment. The DON's environment features gaps in two cybersecurity areas – user access controls, including Privileged User Authentication and Public Key Infrastructure (PKI), and device hardening/encryption – which have contributed to Data Protection vulnerabilities. The DON exhibits issues regarding policy compliance with cybersecurity measures, oversight, and accountability.	
Internal Control Reporting Category	
Security, Information Technology (IT)	
Targeted Correction Date	
Q4 FY 2018	
CAP Milestones	Status
Establish process to ensure participation in the Cybersecurity Scorecard meetings to provide input, carry out corrective actions as necessary, and to assist with broader DoD cybersecurity protection. Map service scorecard metrics and efforts back to DON audit findings.	Q4 FY 2017
Review current DON user system access policy, and update as necessary, to include clear guidance on, and requirements for, privileged user access authorization and credential revocation, user access and control training certification, and user monitoring and oversight. Require timely authorization reviews, spot checks, and focus on documentation and document retention.	Q1 FY 2018
Review current DON acquisition and IT purchase contracts and policy and update as necessary to require the adoption of established DON user access controls and encryption / hardening standards.	Q2 FY 2018
Review DON policy on privileged user access, and update as necessary to include requirements that commanders and supervisors ensure any login to a network infrastructure device requires PKI-based authentication/credentials.	Q2 FY 2018
Review current DON policy on shared file and drive protection, and update as necessary, to include requirements for encryption use and stringent password protection that at minimum meet password requirements specified in DoDI 8520.03 for stronger authentication.	Q3 FY 2018
Review current DON device hardening/encryption policy and procedures. Update policy and procedures as necessary, to include guidance on data at rest and data in transit encryption, requirements for periodic encryption stress tests, and periodic reviews of encryption sufficiency and effectiveness.	Q3 FY 2018
Establish comprehensive understanding of penetration tests and inspections for encryption through the development of policy and/or training for applicable stakeholders. Formalize penetration and inspection cycles and criteria with stakeholders.	Q3 FY 2018

Establish a process to enforce and account for policy compliance through the reporting of deficiencies to the DON Chief Information Officer (CIO and Deputy Under Secretary of the Navy (Policy). The DON CIO will maintain discretion on reporting issues to the Defense Readiness Reporting System for DoD notification and attention.	Q4 FY 2018
Complete an independent validation of the material weakness remediation.	Q4 FY 2018

Uncorrected Material Weaknesses Identified During Prior Periods

Title of Material Weakness	
Depot Level Maintenance	
Description of Material Weakness	
<p>Existing controls for defining maintenance requirements and planning, programming, budgeting, and executing depot maintenance have not been effective in generating required output in accordance with planned schedule and budget.</p> <p>Multiple audits and studies identified a wide range of control issues that cumulatively create MWs in ship and aviation depot maintenance. Policies for defining, costing, and executing maintenance all require improvement to correctly predict both cost and duration of depot maintenance.</p> <p>The Department of the Navy (DON) has over-executed the enacted Ship Depot Maintenance (SDM) budget (Budget Line Item 1B4B) every year for seven consecutive years by a total of \$5.7 billion, including \$629 million in FY 2016, requiring annual reprogramming or supplemental funding requests to Congress. This over-execution of funding has been accompanied by longer than expected depot maintenance durations, increased overhead costs, and reduced operational availability.</p> <p>For Aviation Depot Maintenance (ADM), FY 2017 and prior year losses have been incurred due to unplanned increases in maintenance costs. Internal reviews have identified planned throughput as exceeding available capacity. Although ADM shares some common problems and root causes with SDM, the processes for airframe maintenance have significant differences that warrant splitting aircraft depot maintenance out for separate reporting.</p>	
Internal Control Reporting Category	
Manufacturing, Maintenance, and Repair	
Targeted Correction Date	
Q4 FY 2020	
CAP Milestones	Status
Established a Ship Maintenance Executive Council (SMEC) to shape and guide funding levels for the program.	Completed
Convened the SMEC quarterly to address corrective actions associated with depot level maintenance.	Completed
Improved compliance with DoD 4151.20, "Depot Maintenance Core Capabilities Determination Process," through Navy-led working groups to communicate requirements, reporting expectations, and best practices.	Completed
Participated in Office of the Secretary of Defense (OSD)-led inter-service meetings to review and develop guidance associated with DoD 4151.20.	Completed
Locked formulas in the reporting templates to address arithmetic errors in the core data call associated with DoD 4151.20.	Completed

Stakeholders reviewed factors affecting ship maintenance performance and identified key areas for improvement, including the Planning, Programming, Budgeting, and Execution (PPBE) process within the 1B4B account, the lack of reliable and useful metrics to track SDM performance, and incomplete investment in Navy shipyards to sustain or optimize throughput.	Completed
Held a ship maintenance summit to review interdependencies, commonality, best practices, and gaps within maintenance planning processes.	Completed
Issued a Plan of Actions and Milestones (POA&M) developed during the ship maintenance summit with 28 actions due for Q1 FY 2018, including determining an achievable moderate risk capacity model, developing an overhead requirements model, and reviewing Office of Naval Operations Instruction (OPNAVINST) 4700, "Maintenance Policy for Naval Ships" (nine of 28 actions have been completed as of Q3 FY 2017).	Completed
Implemented Critical Chain Project Management to increase throughput.	Completed
Assessed aircraft depot level maintenance requirements/rates for FY 2017 workload standards, potential induction reductions, and impacts to throughput and readiness, and properly funded the program.	Completed
Determine external or independent review of the Depot Level Maintenance deficiency to validate the remediation of the issue.	Q1 FY 2018
Host an executive summit in September 2018 to identify process improvements in the execution phase of ship depot maintenance to identify and address obstacles to on-time, on-budget delivery of ships and submarines.	Q4 FY 2018
Work with stakeholders to identify depot level maintenance requirements and funding, assess performance of depot level maintenance for FY 2016 - FY 2020, and validate remediation of the depot level maintenance material weakness with an external or independent review.	Q1 FY 2019
Work with Fleet Readiness Centers to stabilize aircraft induction schedules and pricing to match current execution capacity.	Q1 FY 2019
Update OPNAVINST 7130.8 to improve tracking and execution of the president's budget. The updates to the instruction will establish baseline metrics for, and the execution of, program funds for ship maintenance.	Q1 FY 2020
Complete an independent validation of the material weakness remediation.	Q4 FY 2020

Title of Material Weakness	
Military Pay and Personnel (MILPAY)	
Description of Material Weakness	
<p>The Navy's Manpower Personnel Training and Education (MPT&E) enterprise needs to meet the future needs of the Fleet and Sailors and to mitigate the threat to the Navy's ability to execute future missions vital to national security. Specifically, MPT&E needs to evolve and overcome the following challenges:</p> <ul style="list-style-type: none"> • An antiquated industrial age service model – including 63 geographically-separated brick and mortar points of entry for Sailors to Human Resource (HR) services, inconsistent service quality across many locations, limited hours of customer support and lack of visibility of workflow for HR actions. • Lack of timely, searchable, authoritative data – including multiple databases with no application programming interface, data structures that do not reflect analytics needs, and inconsistent analytic capability across the MPT&E Enterprise. • Outdated, duplicative and non-integrated HR and pay systems – including separated personnel and pay capabilities that are not auditable, require many manual workarounds, aging technologies, outdated security and no automation of HR business and pay functions. • Unsustainable HR workforce and infrastructure – supports antiquated manual processes requiring costly “touch labor” and reducing availability for Fleet readiness activities. <p>Navy can overcome the challenges through MPT&E transformation by:</p> <ul style="list-style-type: none"> • Implementing a new HR operating model that logically organizes the MPT&E enterprise around continuum of Service from recruitment to retirement, to produce Fleet Readiness. • Establishing world class Sailor HR Services enabled by a Single Point of Entry (SPOE), and a modern customer relationship management system, • Launching the MyNavy Career Center (MNCC), and two consolidated Navy HR Operations Centers. • Establishing a core suite of MPT&E Systems, including the implementation of an auditable Commercial off-the-Shelf (COTS) Integrated Personnel and Pay capability. • Establishing an Authoritative Data Environment (ADE) and enterprise-wide data analytics capability and associated tools. <p>The above actions will help improve Fleet readiness; reduce costs; provide accurate, auditable, and timely personnel and pay actions; and dramatically improves the way the Navy supports Sailors and their families and the quality of their Service.</p>	
Internal Control Reporting Category	
Personnel and Organization Management	
Targeted Correction Date	
Q1 FY 2023	
CAP Milestones	Status
Chief of Naval Operations (CNO) approval of MPT&E Operating Model.	Completed
Chief of Naval Personnel (CNP) approval of MPT&E Transformation Concept of Operations (CONOPS).	Completed

CNP approval of A and B level specifications for future state MPT&E Enterprise.	Completed
Location, Technology and Name decision made for National Military Command Center (MNCC).	Completed
Naval Education and Training Command (NETC) N3 Street to Fleet Organization Stand-up completed.	Completed
Talent Acquisition Operations Center Proof of Concept completed.	Completed
Integrated Personnel and Pay Solution-Navy (IPPS-N) Pay Proof of Concept completed.	Completed
Establish an Authoritative Data Environment (ADE) 1.5 to enable enterprise level descriptive analytics and reporting capability: will improve data quality and reporting timing across MPT&E enterprise.	Q3 FY 2018
Launch first of two MyNavy Career Center (MNCC) HR Operations Centers: IOC includes self-service, inquiry resolution, shared service capabilities, and transactional HR and pay support to Sailors.	Q4 FY 2018
Release ADE 2.0 to enable a predictive analytics capability to support functional level decisions across MPT&E enterprise.	Q3 FY 2019
Develop a Single Point of Entry (SPOE): to include a web portal; Mobile applications, and a Customized Relations Management system to enable a modern four-tiered service delivery model.	Q4 FY 2019
Establish a core suite of MPT&E System by Implementing Integrated Personnel and Pay System IOC: Foundational Personnel and Pay capability, including baseline of key HR processes, integrated with pay capability, including Treasury Direct Deposit. Development of functionality supports Operating Model capability deployments. IOC will eliminate dependency on DJMS and reduce audit risk.	Q2 FY 2020
Design and full implementation of new HR operating model to include the redesign of talent and HR processes to take advantage of the COTS Integrated Pay and Personnel System and the stand-up of the MNCC.	Q1 FY 2023

Title of Material Weakness	
DON Oversight and Management of Improper Payments	
Description of Material Weakness	
<p>The Department of the Navy (DON) does not have an adequate system of internal controls over the management of improper payments, including written policies and procedures, tone-at-the-top, oversight and management, accountability through reporting, training, etc. Failing to identify payment issues associated with agreements/procurements (e.g. contracts, travel orders, etc.), receipt/acceptance of goods and services, and invoices, all of which support the legality and propriety of payments, increases the likelihood that improper payments may go unnoticed. This may result in significant loss of funds if uncollected or unrecognized liabilities for underpayments, and further erodes taxpayer confidence in the stewardship of tax dollars when other external parties identify them (e.g. Department of Defense Inspector General (DoDIG), Government Accountability Office (GAO), etc.).</p>	
Internal Control Reporting Category	
Comptroller and Resource Management	
Targeted Correction Date	
Q3 FY 2018	
CAP Milestones	Status
Established reporting requirements in writing. Q1 and Q2 FY 2017 reporting to Deputy Assistant Secretary of the Navy for Financial Operations (DASN (FO)) was conducted, and is scheduled for quarterly thereafter.	Completed
Updated guidance to reflect current laws, regulations, and policy on 9 May 2017 and communicated updates to stakeholders.	Completed
Post Payment Review procedures were created and reviewed with stakeholders during training that was conducted between February and March 2017.	Completed
Updated the DON/Defense Finance and Accounting Services (DFAS) Memorandum of Understanding (MOU) and communicated updates to stakeholders.	Completed
Developed and provided training to personnel responsible for conducting post payment reviews, and is available for new personnel and as refresher training.	Completed
United States Marine Corp (USMC) Sampling Plan for the Windows Integrated Automated Travel System (WinIATS) was developed by statistician and signed by DASN (FO).	Completed
DFAS performed a reconciliation of the universe of systems which certified payments and provided the Office of Financial Operations (FMO) with a report on the results.	Completed
Appointment of DASN (FO) as the DON Senior Accountable Official (SAO).	Completed
Identified two additional payment programs Military Sealift Command Financial Management System (MSC-FMS) and USMC Deployable Disbursing System (USMC-DDS)) to review for susceptibility of improper payments as a result of the reconciliation of the universe of systems which certify payments.	Completed
Internal testing of the remediation objectives will be conducted prior to validating remediation of the MW.	Q1 FY 2018

Prepare packages evidencing the effective remediation of the deficiencies, and engage the Naval Audit Service (NAVAUDSVC) for review under an Agreed Upon Procedure (AUP) audit.	Q3 FY 2018
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Title of Material Weakness	
Husbanding Service Provider (HSP) Contract Execution	
Description of Material Weakness	
<p>Husbanding Service Provider (HSP) contracts directly support a critical Fleet need for ships throughout the world where the Department of the Navy (DON) does not have naval facilities. Maritime Husbanding Support is the provisioning of supplies and services as defined in a performance work statement of the contract in support of U.S. military forces within a port. The DON business process for acquiring husbanding and port services requires clear oversight, coordination, and direction for an all-Navy process that pursues a layered defense philosophy. Navy Audit identified deficiencies in the DON business process related to acquiring husbanding and port services, including contract oversight responsibilities of Task Orders (TO), in accordance with acquisition regulations, a lack of separation of responsibilities, and a lack of policy and guidance prescribing oversight.</p>	
Internal Control Reporting Category	
Contract Administration	
Targeted Correction Date	
Q2 FY 2019	
CAP Milestones	Status
Office of the Chief of Naval Operations (OPNAV) partnered with Naval Supply Systems Command (NAVSUP) and Naval Criminal Investigative Service (NCIS) to assess cyber risks associated with the revised husbanding and port services process, and how those risks will be mitigated.	Completed
Required the use of the Wide Area Work Flow (WAWF) and Invoice, Receipt, Acceptance, and Property Transfer (iRAPT) to process payments through Defense Finance and Accounting Service (DFAS).	Completed
Transferred responsibility for placing orders for US ships to Fleet Logistics Center (FLC) Contracting Offices.	Completed
OPNAV, with Naval Inspector General, NCIS, Fleets, NAVSUP, and Military Sealift Command (MSC), implemented and instituted an integrated validation process to ensure annual evaluation of Fleet operations regarding husbanding and port services.	Completed
Responsibility for bill paying moved to Electronic Funds Transfer (EFT)/DFAS payment offices to take the process off ships.	Completed
Validated Contracting Officer's Representatives (COR) for contracts were properly appointed.	Completed
Conducted training to improve auditability/acceptance with all Fleets to ensure personnel performing proper receipt and inspection forward receipts to the COR. This training encompassed Pipeline Schoolhouses, Naval Leadership Ethics Center and Senior Enlisted Academy, Fleet, and Pre-Deployment training.	Completed
Executed the off-ship bill pay process on all U.S. Ships and MSC units.	Completed
Mapped all information systems involved in husbanding and port services process to outline functions, format, and integrity.	Completed

Reviewed off-ship bill pay processes for Financial Improvement and Audit Readiness (FIAR) requirements compliance.	Completed
Implemented Office of Naval Operations Instruction (OPNAVINST) 4400.11, “Husbanding Service Provider Program Policy” and an executive dashboard to enforce and track compliance with updated HSP processes, with an emphasis on governance, financial, contracting, and operational requirements that synthesize the health of husbanding and port services process and enable leadership ability to quickly detect and address instances of fraud, waste, and/or abuse.	Completed
Ensured previous developed/conducted training was institutionalized and enduring.	Completed
Allowed for one year of run time to monitor system health. Key metrics were tracked by OPNAV monthly.	Completed
Transition all HSP single-award contracts to Multiple Award Contracts to reduce fraud, waste, and abuse.	Q4 FY 2017
Validate remediation of the deficiency through a comprehensive audit by NAVAUDSVC.	Q2 FY 2019

Material Weaknesses Corrected During the Period

Title of Material Weakness	
Contract Management – Service Contracts	
Description of Material Weakness	
The contract administration process is deficient in the following three areas: management oversight; documentation; and quality control. Specifically, the following weaknesses were identified: lack of training and refresher training; Contracting Officers' Representative (COR) improperly delegating duties to other government personnel; CORs not properly appointed by the Procurement Contracting Officer (PCO); failure to obtain access to the Wide Area Work Flow (WAWF) system, and then accepting and reviewing invoices in the system; failure to execute duties/responsibilities as detailed in the COR appointment letter; failure to validate contractor and subcontractor labor hours and costs; and COR files lacking documentation of annual meetings between the PCO and COR.	
Internal Control Reporting Category	
Contract Administration	
Targeted Correction Date	
Q3 FY 2017	
CAP Milestones	Status
Established COR Compliance as a special interest item to ensure its inclusion in Procurement Performance and Management Assessment Program (PPMAP) reviews.	Completed
Reviewed sampling of contracts executed by each contracting official to ensure compliance with contracting regulations, directions, and internal operating procedures.	Completed
Deployed the DON COR Tracking Tool; COR Tracking Tool incorporated into WAWF.	Complete
(1) Continued to ensure all contracting personnel have required training, certification, and proper grants of authority, and security clearances for their assigned contracting duties; (2) Conducted audit of documentation of aforementioned items and reviewed the internal operating procedures for use by contracting personnel, and revised and/or updated as needed; (3) Trained contracting personnel in use of updated or revised internal operating procedures and reviewed sampling of contracts executed by each contracting official to ensure compliance with contracting regulations, directions, and internal operating procedures.	Completed
Issue Formal Department of Defense Instruction (DoDI): DoDI 5000.72 (DoD Standard for COR Certification) was released with signature on 26 March 2015. The instruction establishes policies and standards, assigns responsibilities, and provides procedures to certify CORs.	Completed
Release Secretary of the Navy Instruction (SECNAVINST) to implement DoD guidance on the COR: The leadership determined a SECNAVINST was required for implementing DoDI 5000.72.	Completed

Established management oversight and conducted the necessary management internal control activities over the DON's procurement performance management assessment program.	Completed
The material weakness was closed by the Senior Management Council on 02 May 2017.	Completed

Title of Material Weakness	
Personally Identifiable Information (PII)	
Description of Material Weakness	
<p>The number and impact of PII breaches across the DON) is unacceptably high and has remained fairly constant. DON breach report metrics and Naval Audit Service (NAVAUDSVC) audit findings demonstrate a need to strengthen existing policies or create new Personally Identifiable Information (PII) safeguarding policies in three key areas: magnetic hard drives; Social Security Number (SSN) usage reduction; and PII awareness training. The lack of a comprehensive plan regarding the unnecessary or unlawful collection of SSNs could result in a significant loss or compromise of sensitive PII. While a policy on Data at Rest was issued by the DON Chief Information Officer (CIO) in January 2009, it has not been fully implemented across the DON. Implementation would significantly reduce the number and impact of PII breaches.</p>	
Internal Control Reporting Category	
Communications, Intelligence, Security	
Targeted Correction Date	
Q3 FY 2017	
CAP Milestones	Status
Phase 1: DON-wide review and validation of all official forms that collect SSNs.	Completed
Phase 2: DON-wide review and validation of all Information Technology (IT) systems that collect SSNs.	Completed
Conducted Phase 3, the final phase, of the DON SSN Reduction Plan, requiring justification for collecting SSNs.	Completed
Reviewed collections of PII to determine if its use was necessary.	Completed
Developed DON-wide PII training to educate personnel on updates to how PII is handled across the organization.	Completed
Developed DON PII awareness and refresher training mobile application.	Completed
Updated privacy awareness posters.	Completed
Updated Office of Naval Operations Instructions (OPNAVINST) 5211/13 and 5211/14 based on new guidance regarding breach reporting and after-action reporting.	Completed
Hired a privacy subject matter expert to help with PII efforts across the DON.	Completed
The material weakness was closed by the Senior Management Council via virtual vote on 16 March 2017.	Completed

Financial Reporting Material Weaknesses

The following table lists the material weaknesses in Internal Controls over Financial Reporting (ICOFR) and incorporates changes from the weaknesses reported in the Fiscal Year (FY) 2016 Department of the Navy (DON) Statement of Assurance (SOA).

Effectiveness of Internal Control over Financial Reporting (FMFIA Section 2)					
Statement of Assurance: Modified Assurance					
End-to-End Process	FY 2017 Beginning Balance*	New	Resolved	Reassessed	FY 2017 Ending Balance
Acquire-to-Retire	2				2
Budget-to-Report	7				7
Hire-to-Retire	1				1
Order-to-Cash	0				0
Plan-to-Stock	5		(1)		4
Procure-to-Pay	5	1			6
Multiple End-to-End Processes	3	1			4
Total ICOFR Material Weaknesses	23	2	(1)	0	24

*End-to-End Processes were assessed and re-baselined during FY 2017

Uncorrected Material Weaknesses Identified During the Period			
Internal Control Reporting Category	Title of Material Weakness	Targeted Correction Date	Page #
Procure-to-Pay	Accounts Payable (A/P) Accrual Methodology	Q4 FY 2018	44
Multiple	Ineffective Controls over Statement of Budgetary Resources (SBR) Balances	Q4 FY 2020	45

Uncorrected Material Weaknesses Identified During Prior Periods					
Internal Control Reporting Category	Title of Material Weakness	First Year Reported	FY 2016 Targeted Correction Date	Revised Targeted Correction Date	Page #
Acquire-to-Retire	Real Property (RP), replacement value, Existence and Completeness (E&C), and RP Construction in Progress (CIP)	FY 2006	Q4 FY 2017	Q4 FY 2018	47
Acquire-to-Retire	General Equipment (GE) – Ships/Submarines, Aircraft, Satellites, Trident Missiles, Remainder	FY 2007	Q4 FY 2017	Q1 FY 2019	49
Budget-to-Report	Funds, Receipt, and Distribution (FRD) Reconciliation Process	FY 2016	Q1 FY 2017	Q4 FY 2017	53
Budget-to-Report	Fund Balance with Treasury (FBwT) Reconciliations	FY 2016	Q1 FY 2017	Q4 FY 2017	54
Budget-to-Report	The Navy's Beginning Balances are unsupported	FY 2015	Q4 FY 2016	Q4 FY 2017	55
Budget-to-Report	Feeder Systems Reconciliations	FY 2015	Q4 FY 2017	Q1 FY 2019	56
Budget-to-Report	Posting logic does not produce expected financial and budgetary accounting relationships	FY 2015	Q4 FY 2016	Q2 FY 2019	57
Budget-to-Report	The Navy has inconsistent procedures to record Journal Vouchers (JV) and Standard Business Transactions (SBT)	FY 2013	Q2 FY 2017	Q3 FY 2018	59

Uncorrected Material Weaknesses Identified During Prior Periods					
Internal Control Reporting Category	Title of Material Weakness	First Year Reported	FY 2016 Targeted Correction Date	Revised Targeted Correction Date	Page #
Budget-to-Report	Contracts written in support of Building Partner Capacity cases show the no-year Line of Accounting, which does not correctly display the expiration date of funds	FY 2015	Q4 FY 2017	Q4 FY 2019	61
Hire-to-Retire	Military Pay and Personnel (MILPAY)	FY 2015	Q2 FY 2021	Q4 FY 2020	62
Plan-to-Stock	Naval Shipyard Requisition Reconciliations	FY 2013	Q4 FY 2017	Q2 FY 2019	64
Plan-to-Stock	Navy Working Capital Fund (WCF)– Supply Management Moving Average Cost (MAC) Valuation Discrepancies	FY 2005	Q4 FY 2017	Q4 FY 2019	66
Plan-to-Stock	Operating Materials & Supplies (OM&S)	FY 2005	Q4 FY 2017	Q4 FY 2017	67
Plan-to-Stock	Visual Inter-Fund System Transaction Accountability (VISTA) Controls	FY 2013	Q4 FY 2017	Q1 FY 2018	68
Procure-to-Pay	Individuals without properly documented authority are approving purchase requests, purchase orders, and certifying invoices for payment.	FY 2014	Q1 FY 2017	Q3 FY 2019	69
Procure-to-Pay	Obligations are not timely recorded in the General Ledger (GL)	FY 2012	Q3 FY 2017	Q4 FY 2018	71

Uncorrected Material Weaknesses Identified During Prior Periods					
Internal Control Reporting Category	Title of Material Weakness	First Year Reported	FY 2016 Targeted Correction Date	Revised Targeted Correction Date	Page #
Procure-to-Pay	Transportation Account Controls (TAC)	FY 2013	Q4 FY 2017	Q3 FY 2019	73
Procure-to-Pay	Retention of Transportation Documents	FY 2013	Q4 FY 2017	Q2 FY 2019	74
Procure-to-Pay	Military Sealift Command (MSC) liquidations and payments lack supporting receipt and acceptance documentation for the United States Marine Corps (USMC)	FY 2012	Q3 FY 2017	Q4 FY 2017	76
Multiple	Shared Service Provider (SSP) Oversight	FY 2016	Q2 FY 2017	Q2 FY 2018	77
Multiple	Reimbursable Work Order (RWO) Controls	FY 2012	Q4 FY 2018	Q4 FY 2020	78
Multiple	Offline Military Standard Requisitioning and Issue Procedures (MILSTRIP) Requisitions	FY 2009	Q3 FY 2017	Q4 FY 2018	80

Material Weaknesses Corrected During the Period			
Internal Control Reporting Category	Title of Material Weakness	Targeted Correction Year	Page #
Plan-to-Stock	Monitoring open MILSTRIP Commitments	Q3 FY 2017	81

Uncorrected Material Weaknesses Identified During the Period

Title of Material Weakness	
Accounts Payable (A/P) Accrual Methodology	
Description of Material Weakness	
Navy is not able to generate a transactional level population to support the reported A/P balance at FY-end. Additionally, Navy does not have a process to record an estimated liability for goods and services incurred, but not yet invoiced by the vendor. Analysis indicates A/P may be materially understated.	
Internal Control Reporting Category	
Procure-to-Pay	
Targeted Correction Date	
Q4 FY 2018	
CAP Milestones	Status
Developed an A/P Accrual Methodology Strategy in accordance with Generally Accepted Accounting Principles (GAAP) to perform look-back analysis.	Completed
Selected statistical samples from Defense Cash Accountability System (DCAS) cash disbursements with appropriate confidence levels from Q1 FY 2016 through Q1 FY 2017; received the final statistical sample and released samples to commence 11 waves of A/P testing.	Completed
Perform and finalize sample A/P test work; for performance, Budget Submitting Offices (BSO) will provide selected samples to stakeholders to test that the transactions within the balance sheet have audit support documentation. Finalize A/P test work by consolidating results and developing an estimation model to estimate the FY 2017 General Fund (GF) year-end balance.	Q4 FY 2017
Issue NFRs as necessary to document corrective actions required at BSOs.	Q1 FY 2018
Begin planning for the Q1 FY 2018 look-back analysis, which will involve testing cash disbursements for one quarter after year-end (to determine accuracy of estimated year-end balance).	Q1 FY 2018
Perform A/P sample test work and finalize the testing after receiving responses from the BSOs.	Q2 FY 2018
Analyze estimation model results for FY 2018 year-end and make adjustments/corrections as necessary.	Q3 FY 2018
Perform an independent validation of the material weakness remediation	Q4 FY 2018

Title of Material Weakness	
Ineffective Controls over Statement of Budgetary Resources (SBR) Balances	
Description of Material Weakness	
The Department of the Navy (DON)'s financial management controls over the Statement of Budgetary Resources are not designed or operating effectively to provide reasonable assurance that balances related to commitments, obligations/de-obligations, undelivered orders, and unfilled customer orders are valid and recorded accurately.	
Internal Control Reporting Category	
Budget-to-Report, Hire-to-Retire, Order-to-Cash, Procure-to-Pay	
Targeted Correction Date	
Q4 FY 2020	
CAP Milestones	Status
Corrective Action Plan (CAP) Phase 1 – Support related process improvement efforts to support remediation of known gaps to include contract closeout, dormant balance write-off, and Reimbursable Work Order (RWO) execution	
Develop, implement, and monitor policies and procedures for Working Capital Fund (WCF) activities to write off unfilled customer order balances for grantor appropriations.	Q2 FY 2018
Document and develop processes/procedures that support the write-off of balances beyond Defense Contract Audit Agency contract audit maximum liability; monitor developed metrics to test the effectiveness of policies and procedures.	Q3 FY 2018
Develop improvements to the DON RWO policy and procedures supporting the de-obligation of dormant RWO balances; develop metrics to test the effectiveness of the improvements.	Q4 FY 2018
CAP Phase 2 – Align and leverage CAP efforts related to existing Notices of Findings and Recommendations (NFR) and Material Weaknesses (MW)	
The remediation of the MW is aligned to work in conjunction with RWO Controls MW that is scheduled to be completed in Q4 FY 2020. Additionally, Ineffective Controls over SBR Balances MW is aligned to three existing DON NFRs, all of which have target completion dates prior to Q4 FY 2020.	Q4 FY 2020
CAP Phase 3 – Analyze DoD and DON policies and procedures that require the implementation of regulations regarding commitments, obligations/de-obligations, Undelivered Orders (UDO), and Unfilled Customer Orders (UFCO)	
Review existing Business Process Improvement (BPI) documentation to identify gaps in key controls related to obligations/de-obligations, UDOs, and UFCOs.	Q1 FY 2018
Research leading funds management policies at other federal organizations related to the aforementioned business processes.	Q2 FY 2019

Identify control gaps and draft remediation steps to address such gaps; remediation steps may include policy updates, BPI documentation improvements, and compliance testing.	Q3 FY 2019
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Uncorrected Material Weaknesses Identified During Prior Periods

Title of Material Weakness	
Real Property (RP), replacement value, existence and completeness (E&C), and RP Construction in Progress (CIP)	
Description of Material Weakness	
Valuation of RP assets acquired prior to Fiscal Year (FY) 2014 are at risk of compliance because Placed-In-Service (PIS) dates and property replacement values cannot be substantiated. Further, Naval Facilities Engineering Command's (NAVFAC) proposed virtual inventory practices to support existence and completeness have not been validated. CIP internal controls have not yet been proven effective, and GL balances are not fully supported by Key Supporting Documents (KSD).	
Internal Control Reporting Category	
Acquire-to-Retire	
Targeted Correction Date	
Q4 FY 2018	
CAP Milestones	Status
RP, Replacement Value, and E&C	
Developed standard processes for the acquisition and disposal of RP modules within Internet Navy Facilities Asset Data Store (iNFADS) to handle all future military construction (MILCON).	Completed
Conducted two rounds of testing to ensure internal control compliance. Completed the process of automating DD 1354, "Transfer and Acceptance of Department of Defense (DoD) RP," forms.	Completed
Completed internal controls testing to test the effectiveness of preventing or detecting material misstatements.	Completed
Performed E&C sustainment testing to demonstrate that all assets are being properly accounted for to further establish audit readiness.	Completed
Performed PIS analysis to demonstrate the Navy's capability to perform the Property Replacement Value (PRV) requirements set forth by OSD.	Completed
Drafted E&C analysis and white paper to document the inventory methods demonstrated at NAVFAC.	Completed
Drafted PRV Valuation white paper to present Navy's methodology to establish opening balances for the Navy General Fund (GF).	Completed
Perform E&C sustainment testing to help demonstrate that all assets are being properly accounted for to further establish audit readiness.	Q1 FY 2018
Periodic Virtual Inventory (PVI) metric to 98%. The PVI metric tracks and identifies unmatched variances between iNFADS and Geographic Information System (GIS).	Q4 FY 2018
Complete an independent validation of the Material Weakness (MW) remediation.	Q4 FY 2018
RP Construction in Progress (CIP)	
Began documenting the "As Is" process for RP CIP.	Complete
Implemented the Facilities Information System (FIS) data feed to iNFADS to support DD 1354 creation and to fully support the cost government for RP.	Complete

Initiated a process to capture non-MILCON costs associated with CIP for RP projects.	Complete
Re-evaluated the RP MW to clearly delineate between RP PRV and E&C, and RP CIP. NAVFAC refined the CAPs accordingly.	Complete
Investigated transactions completeness associated with GL accounts and adjusted CIP account balances as necessary to correct gaps. NAVFAC is working other corrective actions to establish standard processes (e.g. cancelled projects, non-MILCON testing).	Complete
Participated in updating its reporting systems and improving the CIP Transaction Detail Reports.	Complete
Drafted CIP-related white papers for E&C and Project to RP Unique Identifier (RPUID) level validation, and developed a CIP proof package detailing how costs are accumulated and the identification of the related KSDs.	Complete
Provide a report of testing for the accumulation of non-MILCON CIP.	Q4 FY 2018

Title of Material Weakness	
General Equipment (GE) – Ships/Submarines, Aircraft, Satellites, Trident Missiles, Remainder	
Description of Material Weakness	
The Department of the Navy (DON) cannot establish and/or support ownership and valuation of GE due to a lack of supporting documentation, improper interpretation of guidance, underutilization of the Accountable Property System of Record (APSR), and system limitations. Additionally, the DON cannot substantiate that the APSR represents a complete inventory of GE assets. The inability to reconcile property accountability systems with financial systems equates to inaccurate asset disclosure and presentation.	
Internal Control Reporting Category	
Acquire-to-Retire	
Targeted Correction Dates	
Q4 FY 2018 – Ships/Submarines Q4 FY 2017 – Satellites Q4 FY 2017 – Aircraft Q1 FY 2019 – Trident Missiles Q4 FY 2017 – Remainder	
CAP Milestones	Status
General Equipment – Ships/Submarines	
Completed a preliminary ships/submarines inventory list and made updates within the Defense Property Accountability System (DPAS). Completed Existence and Completeness (E&C) validations of available ships at Naval Stations Norfolk, Little Creek, and Mayport. Assistant Secretary of the Navy (Financial Management and Comptroller) (ASN (FM&C)) made an initial E&C assertion for ships and submarines.	Completed
Documented effective controls and prioritized control weaknesses related to DON GE deficiencies.	Completed
The Department of Defense Inspector General (DoDIG) completed an audit on E&C of vessels and returned no issues.	Completed
Obtained DD 250, “Material Inspection and Receiving Report,” forms for the vessel universe; developed/implemented Outlook mailbox processes for DD 250s for current deliveries of new vessels.	Completed
Performed vessel valuations using appropriation-based methods, Military Sealift Command contract-acquired vessels, Standard Accounting and Reporting System (STARS)/Naval Sea Systems Command (NAVSEA) 05C data-based methods, and like-item methods. Drafted an initial DON ships and submarines Valuation Methodology Document, and documented the Estimated Service Life (ESL) for ships/submarines.	Completed
Developed an independent vessel universe and conducted its first 100% inventory. Documented the ESL for ships/submarines.	Completed
Reassessed the Material Weakness (MW) and the remaining remediation requirements for ships/submarines.	Completed
Produce the final draft of the DON ships and submarines Valuation Methodology Document, and update DPAS with information regarding vessel values, accumulated depreciation, and net book values.	Q4 FY 2017

Develop physical inventory sustainment procedures for E&C valuation of vessels.	Q4 FY 2017
Provide valuation packages to support re-baselining of historical assets and new delivery to update DPAS with vessel valuation information.	Q4 FY 2017
Develop sustainment procedures for valuation (this milestone is dependent upon the successful deployment of the general equipment – construction in progress sustainment solution).	Q4 FY 2018
Complete an independent validation of the MW remediation related to ships and subs.	Q4 FY 2018
General Equipment (GE) – Aircraft	
Completed preliminary aircraft inventory lists; conducted initial E&C sample testing at Naval Air Station (NAS) Norfolk, NAS Oceana, NAS Jacksonville, NAS Patuxent River, and Joint Reserve Base Andrews; made initial E&C assertion for aircraft.	Completed
Maintained aircraft GE inventory in DPAS.	Completed
Conducted a reconciliation of the Navy Enterprise Resource Planning (ERP) universe to the Aircraft Inventory and Readiness Reporting System (AIRRS) to achieve a 100% baseline physical inventory of GE-Aircraft, and documented the process, findings, and results of the inventory. Developed Standard Operating Procedures (SOP) for Navy ERP to AIRRS reconciliations, including processes for accounting for assets that cannot be physically inventoried.	Completed
Documented methodologies validating the president budget estimates by demonstrating the estimate is a reasonable representative of historical cost for the assets; conducted research across asset populations and compared current budget estimates to transactional data within Navy ERP; reviewed a white paper detailing this process as well as aircraft PIS dates.	Completed
Documented the rationale utilized to estimate the useful life of aircraft is in accordance with Generally Accepted Accounting Principles; finalized budget estimates for all aircraft PIS dates by implementing PIS testing and obtaining independent validation.	Completed
Developed sustainment procedures using existing controls and operational processes. Documented information in the “Aircraft Alternative Physical Inventory Procedures” technical white paper.	Completed
Developed and documented alternative E&C procedures for sustainment purposes.	Completed
Reassessed the MW and the remaining remediation requirements for aircraft.	Completed
Identify timeframes for which “physical inventory by exception” methods will occur; conclude and document E&C testing results while implementing cyclical E&C alternative procedures to allow for sustainment of the GE-Aircraft inventory.	Q4 FY 2017
Develop sustainment aircraft valuation procedures for FY 2017 and beyond; develop sustainable aircraft valuation procedures through the development of white papers.	Q4 FY 2017
Complete an independent validation of the MW remediation related to aircraft.	Q4 FY 2017
General Equipment (GE) – Satellites	
Reported nine satellites in the Capital Asset Manager System – Military Equipment (CAMS-ME).	Completed
Reported nine satellites in DPAS.	Completed
Designated Navy ERP as the APSR for satellites, and migrated nine satellites to Navy ERP.	Completed

Conducted a virtual inventory of all nine satellites to complete the DON triennial inventory.	Completed
Conducted an analysis of the supporting documentation, acceptance, and title/ownership to support PIS dates for all categories of satellites. Findings from this analysis are currently being incorporated into DON policy.	Completed
Updated and documented the useful life classification and the supporting documentation for the estimated useful life of satellites. Updates to SECNAVINST 7320.10B, "Accountability and Accounting of PP&E," are being made to reflect the changes made to the useful life categories.	Completed
Developed methodologies for valuation and generated valuation packages for Mobile User Objective System (MUOS) satellites 1, 2, 3, and 4, using Statement of Federal Financial Accounting Standards (SFFAS) 6 actual costs and 50 deemed valuation. Valuation packages were reviewed by an Impartial Verification & Validation (IV&V) team and are ready for audit. MUOS 5 was not valued because it is a CIP.	Completed
Complete an independent validation of the MW remediation related to satellites.	Q4 FY 2017
General Equipment (GE) – Trident Missiles	
Defined APSR by transitioning valuation systems to DPAS and defined current DON policies and guidance.	Completed
Received a "clean" opinion by the DoDIG on its assertions for E&C, Rights and Obligations for Trident Missiles (19 January 2012).	Completed
Loaded Trident missile information from multiple legacy systems into Navy ERP.	Completed
Designated Navy ERP as the APSR for Trident missile reporting.	Completed
Implemented quarterly reconciliation logs in each of SSP's field locations.	Completed
Mandated all GE acquisitions beginning in FY 2015 must be uploaded into Navy ERP for document retention.	Completed
Commenced the process for the reclassification of Trident II D5 missiles from GE to Operating Materials and Supplies (OM&S) effective Q1 FY 2018.	Completed
Solidified reporting methods and valuation strategies related to Trident valuation.	Completed
Receive baseline valuation information and prepare for valuation of Trident Missiles as OM&S following the transition; reconcile missile locations not previously entered (if applicable) and plan discovery efforts.	Q4 FY 2017
Plan for discovery efforts at new locations; continue with E&C efforts at existing locations.	Q4 FY 2017 and Beyond
Complete the reclassification of Trident II D5 Missiles from GE to OM&S and continue valuation efforts under the new classification.	Q4 FY 2017
Improve E&C accuracy rate to 98% per DoD instructions/guidance.	Q1 FY 2019
Complete an independent validation of the MW remediation related to Trident Missiles.	Q1 FY 2019
Note: Effective Q1 FY 2018, the valuation of Trident Missiles will be reported as part of the OM&S MW because Trident Missiles will no longer be GE.	
General Equipment (GE) – Remainder	
Documented controls and prioritized control weaknesses, and updated receipt and acceptance policies and procedures related to GE.	Completed
Entered a period of discovery including a business process standardization effort to map and streamline business processes, and performed an initial round of E&C testing.	Completed

Performed inventory testing for E&C and additional testing for the proper financial accounting treatment for DON assets within Navy ERP.	Completed
Continued with E&C testing focusing on GE-Remainder.	Completed
Implemented a three-tiered valuation strategy on track to assert asset valuation in Q3 FY 2017.	Completed
Made an initial assertion of GE-Remainder assets in Q3 FY 2015.	Completed
Conducted an analysis of Financial Improvement and Audit Readiness (FIAR) assertion packages and the GE strategy memo. Performed an APSR-to-KSD freconciliation, and conducted a physical inventory of GE-Remainder assets.	Completed
Completed development of asset management CAP 4.2 regarding E&C for GE-Remainder, and provided the CAP to BSOs for GE-Remainder.	Completed
Uploaded BSO inventory procedures into the Audit Response Center (ARC) Tool and provided a revised CAP 4.2 to the BSOs.	Completed
Conducted FIAR valuation baselines of three population listings (Expeditionary Management Information System (EXMIS), Integrated Management Processing System (IMPS), and Defense Medical Logistics Standard Support (DMLSS)).	Completed
Completed asset management CAP 4.3, and provided it to BSOs for GE-Remainder valuation. A revised version of CAP 4.3 was provided to BSOs in Q3 FY 2017.	Completed
Continue to work toward achieving an auditable E&C baseline by working with DON BSOs to update GE-Remainder inventory listings.	Q4 FY 2017
Perform analysis over GE-Remainder asset listings obtained from the APSR to determine the overall completeness of the GE-Remainder population within the DON; review asset logs, mission-management data, and spend plans to substantiate the accuracy of GE-Remainder inventory listings.	Q4 FY 2017
Submit confirmation of E&C readiness to the IV&V team, which will validate and review the E&C readiness confirmations.	Q4 FY 2017
Establish GE-Remainder baseline valuations while addressing alternative valuation methodologies in accordance with SFFAS 50 to include Date Placed-In-Service and Useful Life Estimation approaches.	Q4 FY 2017
Value Category 1, Category 2, Category 3, and Category 4 assets, retaining and maintaining applicable KSDs and supporting documentation; submit valuations to the IV&V team for validation checks.	Q4 FY 2017
Complete an independent validation of the MW remediation related to GE-Remainder.	Q4 FY 2017

Title of Material Weakness	
Fund Receipt and Distribution (FRD) Reconciliation Process	
Description of Material Weakness	
The FRD reconciliation process design requires improvements and more timely preparation. Field level General Ledgers (GL) do not reconcile to funding authorization documents.	
Internal Control Reporting Category	
Budget-to-Report	
Targeted Correction Date	
Q4 FY 2017	
CAP Milestones	Status
Generated the FY 2016 Q4 FRD reconciliation based on established procedures utilizing data from the Transaction Universe (TU) and input from budget submitting offices to address reconciliation variances.	Completed
Updated procedural documentation for the FRD reconciliation to enhance roles/responsibilities descriptions and defined follow-up procedures to address reconciliation variances.	Completed
Implemented new reconciliation requirements and completed first “All Years” FRD reconciliations using February and March 2017 data to demonstrate consecutive monthly reconciliations.	Completed
Evaluated the effectiveness of controls over reconciliations by reviewing SOPs and ensuring access to documentation/key supporting documents.	Completed
Commenced validation procedures by reviewing evidentiary artifacts to support corrective action plan validation with the Office of Financial Operations Evaluate, Prioritize, and Remediate team.	Completed
Complete an independent validation of the material weakness remediation.	Q4 FY 2017

Title of Material Weakness	
Fund Balance with Treasury (FBwT) Reconciliations	
Description of Material Weakness	
The Department of the Navy (DON) FBwT reconciliation does not effectively reconcile Field Level GL balances to reported amounts on budgetary reports and the financial statements. The DON does not perform effective oversight of the FBwT process performed by Defense Finance and Accounting Service (DFAS).	
Internal Control Reporting Category	
Budget-to-Report	
Targeted Correction Date	
Q4 FY 2017	
CAP Milestones	Status
Generated FY 2016 Period 12 FBwT reconciliations based on the procedures and logic established for the Period 3 reconciliation. The reconciliation addresses changes to go from unadjusted to adjusted trial balances in the DON's reporting system (Defense Departmental Reporting System (DDRS)), as well as variances between the United States Treasury and the DON general ledger.	Completed
Generate March 2017 reconciliation to demonstrate successful consecutive monthly reconciliations.	Q4 FY 2017
Generate April 2017 reconciliation to demonstrate successful consecutive monthly reconciliations.	Q4 FY 2017
Update processes as necessary and conduct evaluations of controls/reconciliation process by reviewing standard operating procedures, and ensuring documentation/key supporting documents are available and monthly reconciliations are completed.	Q4 FY 2017
Complete an independent validation of the material weakness remediation.	Q4 FY 2017

Title of Material Weakness	
The Navy's Beginning Balances are unsupported.	
Description of Material Weakness	
Beginning Balances are not fully supported by reconciled and detailed General Ledger (GL) accounting entries. Detailed GL accounting entries recorded in the accounting systems are not 100% available or reliable for purposes of reconciling the Navy's Beginning Balances as of 1 October 2016 (Fiscal Year (FY) 2017).	
Internal Control Reporting Category	
Budget-to-Report	
Targeted Correction Date	
Q4 FY 2017	
CAP Milestones	Status
Issued a data call and obtained historical transactional data from all General Fund (GF) and Working Capital Fund (WCF) systems for transactions between 1 October 2012 and the end of FY 2015.	Completed
Performed a reconciliation of transactions from before FY 2013 through the present data, using reconciliation ending balances from Q4 FY 2016 to establish FY 2017 Beginning Balances.	Completed
Developed standard operating procedures, process flows, and control matrices for Transaction Universe (TU) Internal Controls documentation.	Completed
Established a monthly process to obtain the transactional data for all GF and WCF systems.	Completed
Produced TU and Trial Balance (TB) reconciliations for Q1 and Q2 FY 2017.	Completed
Developed a repository to house historical GL details. Produced reconciled historical GL details supporting the Schedule of Budgetary Resources (SBR), reconciled historical GL details for the Defense Departmental Reporting System DDRS - Budgetary (DDRS-B) system, and reconciled WCF historical GL details corresponding to DDRS - Inception-to-date (DDRS-ITD) system trial balances (all housed in repository).	Completed
Performed testing over the TU to determine improvements needed, and made corrections to control objectives and procedures. Finalized and implemented additional controls over the TU.	Completed
Complete an independent validation of the material weakness remediation.	Q4 FY 2017

Title of Material Weakness	
Feeder System Reconciliations	
Description of Material Weakness	
<p>The Department of the Navy's (DON)'s transactions resident in the Business Transaction Systems (BTS) cannot be reconciled to the DON General Ledger Accounting Systems (GLAS) due to system, policy, and process issues. Process variances, system interface, and configuration management issues present a risk that the DON could over or understate obligations, Accounts Receivable (A/R), Accounts Payable (A/P), and disbursements. Specifically, the following issues have been determined:</p> <ul style="list-style-type: none"> • Lack of GLAS that can uniquely identify every transaction resident in BTS. Systemic issues create an inability to trace and reconcile individual transactions back to the BTS; • Lack of comprehensive policy and guidance for BTS and GLAS owners to perform the necessary activities to ensure completeness and accuracy; • Lack of reoccurring file and transactional reconciliations between BTS and GLAS; • Lack of a proper control environment to reconcile BTS and GLAS transactions; and • Lack of governance and monitoring processes to ensure that BTS and GLAS owners sustain the necessary activities to ensure completeness and accuracy. 	
Internal Control Reporting Category	
Budget-to-Report	
Targeted Correction Date	
Q1 FY 2019	
CAP Milestones	Status
Identified control weaknesses and developed the scope for Tier 1 systems within the Material Weakness (MW) corrective action plan (Phase 1).	Completed
Disseminated policy on implementing interface controls using the Federal Information System Controls Audit Manual (FISCAM) as a guide (Phase 1).	Completed
Executed interface controls using the FISCAM as a guide.	Completed
Validate the effectiveness of controls implemented for Tier 1 systems and develop a governance program to validate that controls continue to be performed (Phase 1).	Q4 FY 2017
Analyze and develop scope for Phase 2 regarding Tier 2 systems.	Q1 FY 2018
Disseminate policy on implementing interface controls for identified systems using FISCAM as a guide.	Q1 FY 2018
Execute interface controls and ensure controls are effectively designed and implemented, and develop a governance forum to validate the controls continue to be performed (Phase 2).	Q2 FY 2018
Analyze and develop scope for Phase 3.	Q2 FY 2018
Disseminate policy on implementing interface controls for identified systems using FISCAM as a guide.	Q2 FY 2018
Execute interface controls and validate the controls are effectively implemented; develop a governance forum to monitor the controls (Phase 3).	Q4 FY 2018
Complete an independent validation of the MW remediation.	Q1 FY 2019

Title of Material Weakness	
Posting logic does not produce expected financial and budgetary accounting relationships	
Description of Material Weakness	
General Ledger Accounting Systems (GLAS) posting logic does not produce expected financial and budgetary accounting relationships.	
Internal Control Reporting Category	
Budget-to-Report	
Targeted Correction Date	
Q2 FY 2019 (Identified issues will not fully remediate the issues, however risk will be significantly minimized.)	
CAP Milestones	Status
Performed crosswalk compliance and root cause analysis of Department of the Navy (DON) General Fund (GF) General Ledgers (GL) to DDRS-Budgetary system to assess alignment with United States Standard General Ledger (USSGL).	Completed
Implemented interim corrective actions to address gaps determined by root cause and compliance analysis for DON GF GL to Defense Departmental Reporting System - Budgetary (DDRS-B) crosswalks (removed obsolete crosswalks, improved supportability, and fixed incorrect crosswalks).	Completed
Validated the DON GF GL to DDRS-B crosswalks.	Completed
Performed crosswalk compliance and root cause analysis of DON working capital GLs to DDRS-B to assess alignment with USSGL.	Completed
Designed a governance process to oversee changes to DON GL to DDRS financial crosswalks.	Completed
Conducted a Program Budget Information System (PBIS) working group designed to improve the business processes and accounting for the receipt, distribution, and reporting of funds between PBIS and DDRS.	Completed
Documented PBIS, DDRS, Standard Accounting, Budgeting, and Reporting System (SABRS), Navy Enterprise Resource Planning (ERP), Navy Systems Management Activity, and Standard Accounting and Reporting System (STARS) system change requirements based upon recommendations from the PBIS working group with the goal of increasing compliance to the USSGL.	Completed
Implemented interim corrective actions to address the gaps identified by the PBIS working group (removed obsolete crosswalks, improved supportability, and fixed incorrect crosswalks).	Completed
Provided CAP package to Office of Financial Management (FMO) Evaluate, Prioritize, Remediate team for independent validation check. EPR performed validation of the PBIS working group findings.	Completed
Assess WCF DDRS-B crosswalk compliance gaps/issues, and identify and implement interim corrective actions to address the deficiencies (remove obsolete crosswalks, improve supportability, and fix incorrect crosswalks).	Q4 FY 2017
Provide the DON WCF GL to DDRS-B crosswalk CAP package to FMO EPR team for validation.	Q4 FY 2017
Define and document the posting logic analysis strategy and approach.	Q3 FY 2018
Perform independent validation of posting logic analysis and process.	Q3 FY 2018

Document financial posting logic present within the system; establish a process to govern posting logic changes within Navy ERP.	Q3 FY 2018
Analyze posting logic and assess compliance with USSGL and DoD financial information system requirements; document identified posting logic issues.	Q4 FY 2018
Document and prioritize system requirements to remediate posting logic compliance issues.	Q1 FY 2019
Complete an independent validation of the material weakness remediation.	Q2 FY 2019
Note: Validation of certain deficiencies is dependent upon predecessor tasks defining system requirements to be completed before implementation can be completed for ERP, PBIS, and USSGL.	

Title of Material Weakness	
The Navy has inconsistent procedures to record Journal Vouchers (JV) and Standard Business Transactions (SBT)	
Description of Material Weakness	
The Navy has inconsistent procedures to record journal vouchers and standard business transactions.	
Internal Control Reporting Category	
Budget-to-Report	
Targeted Correction Date	
Q3 FY 2018	
CAP Milestones	Status
Conducted command level training to identify key controls around field level Adjusting Journal Entries (AJE) to ensure entries are properly prepared, reviewed, and documented in a standardized process.	Completed
Developed "Department of the Navy (DON) Policy for Business Entries Including Journal Vouchers," which includes standardizing the definition of JV v. SBT. Leveraged DON JV AJE policy and performed second round of testing of the field level AJE.	Completed
Performed Financial Statement Compilation and Reporting (FSCR) audit testing for JVs and SBTs, documenting deficiencies and creating remediation plans as necessary (sustainment testing results of 90% or better required to remediate a deficiency).	Completed
Established Memorandum of Understanding (MOU) between Defense Finance and Accounting Service (DFAS) and Navy Office of Financial Operations (FMO) to provide governance and oversight of JVs posted in Defense Departmental Reporting System (DDRS). Includes quality and compliance testing for Manual JVs and approval thresholds.	Completed
Conducted initial round of quality and compliance testing for Manual JVs in DDRS, compiled metrics, and published results to DFAS and leadership. Process is in sustainment.	Completed
Updated MOU between DFAS and Navy FMO to provide additional guidelines for JV approvals when Navy FMO-2 JV review is required.	Completed
Developed and implemented a quarterly Field-Level Journal Voucher (FLJV) quality and compliance monitoring process.	Completed
Established MOU between DFAS and Navy FMO to provide additional guidelines for FLJVs posted on behalf of DON Budget Submitting Offices (BSO).	Completed
Held JV working groups designed to assist in identifying and taking actions to eliminate unsupported JVs and strengthen the JV support packages as necessary	Completed
Implemented Navy approval prior to posting Level 1 trading partner eliminations estimates. This will result in more accurate amounts reported within the trading partner process, reducing the amount of unsupported JV eliminations.	Completed
Reviewed white papers for JVs identified as exceptions to ensure white papers were kept up to date.	Completed
Collaborated with Defense Finance and Accounting Service (DFAS) to improve policies and procedures for the BSOs regarding DDRS-B JV packages. BSOs were provided SOPs and example JV packages.	Completed

Conducted FLJV quality and compliance testing, compiled metrics, and reported results to BSOs and FMO/FM&C leadership. Process is in sustainment.	Completed
Performed a validation of the process and results for FLJV quality and compliance testing.	Completed
Established and implemented FLJV guidelines for the development of BSO documentation, procedures, and mechanisms to demonstrate an effective and mature FLJV control environment.	Completed
Defined criteria for assessing BSO processes/procedures regarding categorizing business entries as JVs v. SBTs; received BSO processes for analyzing transactions.	Completed
Defined and documented processes for monitoring BSO corrective actions and incorporated BSO corrective actions into the ongoing FLJV compliance testing feedback between FMO and the BSOs.	Completed
Executed process for monitoring BSO corrective actions on identified deficiencies with two pilot BSOs.	Completed
Assess BSO procedures for analyzing business entries, and properly categorize business entries as either JVs per the DON JV policy and provide feedback/recommendations to BSOs on how to improve their processes.	Q4 FY 2017
Design, develop, and provide BSOs with a draft oversight and monitoring framework for BSO execution of properly categorizing business entries per the DON JV Policy on JV/SBT categorization monitoring.	Q4 FY 2017
Implement process for monitoring corrective actions on identified deficiencies regarding FLJVs.	Q4 FY 2017
JV working groups will take actions to eliminate unsupported JVs and strengthen JV support packages as necessary; an Enterprise Standard and Solution (ESS) Eliminations Navy GF sub-working group will address issues/gaps with “Elimination JVs”, which are part of the trading partner process.	Q4 FY 2017
DFAS will continue to complete monthly JV peer reviews between several DFAS segments (DFAS-Cleveland, DFAS-Indianapolis, DFAS-Columbus); testing will be performed on the monthly peer reviews.	Q4 FY 2017
EPR is scheduled to complete validation of DDRS JV controls.	Q1 FY 2018
Execute an oversight and monitoring process demonstrating operational effectiveness, and, upon completion, provide the CAP package for FLJVs to the EPR team for validation checks.	Q2 FY 2018
Implement and execute defined oversight and monitoring process for properly categorizing business entries per the DON JV policy.	Q2 FY 2018
Provide feedback and recommendations to BSOs based on FMO monitoring results.	Q3 FY 2018
Perform an independent validation of the material weakness remediation.	Q3 FY 2018

Title of Material Weakness	
Contracts written in support of Building Partner Capacity (BPC) cases show the no-year Line of Accounting (LOA), which does not correctly display the expiration date of the funds.	
Description of Material Weakness	
BPC is funded through a variety of government appropriations with various periods of availability. BPC funds are transferred to the Foreign Military Sales (FMS) Trust Fund for execution, which shows a no-year appropriation. Department of Defense (DoD) appropriations within the FMS Trust Fund have expiration dates. Contracts written in support of BPC cases show the no-year Line of Accounting (LOA), which does not correctly display the expiration date of the funds. This increases the risk of obligations being made past the funds expiration date, potentially resulting in an Anti-Deficiency Act violation.	
Internal Control Reporting Category	
Budget-to-Report	
Targeted Correction Date	
Q4 FY 2019	
CAP Milestones	Status
Marine Corps Systems Command (MCSC) updated the LOA between BPC and FMS funds because FMS funds have no expiration date and show a no-year appropriation, while DoD appropriations within the FMS Trust Fund have expiration dates.	Completed
MCSC notified Headquarters, U.S. Marine Corps (HQMC) that the Department of the Navy (DON) does not have authority to update the LOA.	Completed
MCSC and Navy International Programs Office (IPO) are working with stakeholders to elevate the issue to the Office of the Secretary of Defense (OSD).	Completed
USMC provide artifacts to support established compensating controls for independent validation.	Q1 FY 2018
Coordinate with Navy IPO to identify compensating controls for Navy BPC transactions and develop implementation plan.	Q2 FY 2018
Navy compensating controls implemented.	Q1 FY 2019
Navy validates controls are operating effectively.	Q2 FY 2019
Navy provide artifacts to support established compensating controls for independent validation.	Q3 FY 2019
The DON is not able to fully remediate the material weakness and it has been elevated to the OSD to be addressed.	

Title of Material Weakness	
Military Pay and Personnel (MILPAY)	
Description of Material Weakness	
There are multiple widespread issues with governance, oversight, quality of service, supportability, systems, and control over pay and personnel functions resulting in a lack of timely, accurate, and supported pay and personnel transactions. Insufficient internal controls and oversight regarding roles and responsibilities, separation of duties, enforcement, and system access to identify trends, deficiencies, and corrective actions have been identified. Additionally, the Department of the Navy (DON) military pay and financial management system lacks modern capabilities to support auditability.	
Internal Control Reporting Category	
Hire-to-Retire	
Targeted Correction Date	
Q4 FY 2020	
CAP Milestones	Status
Updates were made to the OPNAVINST 5200.45 to clearly delineate the roles and responsibilities of the organizations responsible for personnel and pay service delivery.	Completed
A Managers' Internal Control Program for the Navy Pay and Personnel Support Center was established to provide necessary internal controls oversight and compliance framework.	Completed
Updated 46 standard operating procedures and 49 trainings to ensure audit requirements for key supporting documents, document retention locations, and internal control points are incorporated.	Completed
A dedicated pay and personnel training organization (PERS-213) was established. Additionally, job-specific training requirements for 10 out of 12 personnel and pay related functional areas were identified and established, and a set of first-generation (Phase 1) self-paced e-learning courses were developed to provide improved training opportunities and capabilities.	Completed
Gaps and inefficiencies in current document retention practices were assessed, a standard naming convention and new document retention policy was developed, and Total Records Information Management was deployed to standardize pay and personnel records retention processes and support audit compliance.	Completed
For the integrated PERS-Pay IT System, verified the "As-Is" state of the process to create a "To-Be" state, completed five of five development phases in a Pers/Pay Proof of Concept, Phases one and two of the Retirement and Separation from electronic DD 214.	Completed
Established three specialized functional service centers (Travel Claims, Strength Gains, and Reserve Pay Processing).	Completed
Develop and implement a framework for an internal control and compliance program for each key functional organization in the pay and personnel process.	Q1 FY 2018
Formal training opportunities will be developed and offered on personnel, pay, fiscal, and travel functions.	Q1 FY 2018
Develop and release OPNAVINST 5200.45 to delineate roles and responsibilities of organizations responsible for personnel and pay.	Q2 FY 2018

Identify gaps and shortcomings in current records retention procedures, and implement recommendation on standardization to support audit compliance.	Q2 FY 2018
Develop and offer formal training opportunities on personnel, pay, fiscal, and travel functions.	Q4 FY 2019
An assessment of the constraints associated with maintaining human resources IT application currency in the afloat environment.	Q1 FY 2020
External or independent review of the MILPAY deficiency will occur to validate the remediation of the issue.	Q1 FY 2020
An integrated automated personnel and pay information system will be implemented across the DON.	Q2 FY 2020
(Individual milestone timelines includes remediation validation)	

Title of Material Weakness	
Naval Shipyard Requisition Reconciliations	
Description of Material Weakness	
The Department of the Navy (DON) does not have proper controls over shipyard requisitions, specifically, receipt and acceptance documentation.	
Internal Control Reporting Category	
Plan-to-Stock	
Targeted Correction Date	
Q2 FY 2019	
CAP Milestones	Status
Conducted cross-segment discovery at naval shipyards to address potential risks for Military Standard Requisitioning and Issue Procedures (MILSTRIP) by developing remediation timelines. Organized a working group to identify root causes of Naval Shipyard feeder system issues.	Completed
Performed segment feeder system reconciliation to validate MILSTRIP general ledger transactions against supply data for Naval Shipyards. Site visits were performed to gain understanding of reconciled items, as well as root causes for control weaknesses relevant to MILSTRIP.	Completed
Conducted site visits at shipyards and regional maintenance centers. Documented baselines for controls, Key Supporting Documents (KSD), and root causes for MILSTRIP control deficiencies.	Completed
Issued Naval Administrative (NAVADMIN) 066/16 requiring commands to retain financial documentation as outlined in the KSD matrix, established standardized document retrieval practices, and implemented self-testing to confirm that process improvements for document retention and financial event approvals were maintained.	Completed
DON Commands were required to provide evidence of self-testing processes and KSD retrieval practices.	Completed
Established a strike team within Director, Navy Staff (DNS) to perform research into the root cause and underlying deficiencies of the material weakness and confirmed/identified necessary remediation activities.	Completed
Document standard operating procedures for MILSTRIP, Contract Vendor Pay (CVP), and Transportation of Things (ToT) transactions for each Budget Submitting Office (BSO) accounting system, including the current process for how transactions related to Naval Shipyard requisitions are recorded in Navy financial systems and how transactions are reconciled against KSD.	Q3 FY 2018
Perform a gap analysis of the Naval Shipyard requisition process. Identify areas that lack controls over document retention, transactional input into Navy financial systems, and the reconciliation of Naval Shipyard requisitions to the GL.	Q3 FY 2018
Develop controls to improve processes over Naval Shipyard requisitions and how transactions are recorded in the GL.	Q3 FY 2018
Obtain a decision from BSOs and Navy leadership on proposed changes, to business process documentation, to be incorporated by the Business Process Improvement team through a quarterly release of Navy Enterprise Resource Planning (ERP) and Legacy documentation.	Q4 FY 2018

Develop and perform a design review to confirm that updates to procedures are feasibly executable and that those updates to procedures will be sustainable at the command level. Obtain confirmation the test of design is complete from EPR.	Q4 FY 2018
Implement change requests to Navy business process documentation after test of design is completed and confirmed by the Evaluate, Prioritize, and Remediate team.	Q4 FY 2018
Revise SOPs, or process flows, and the Office of Financial Operation's (FMO) KSD guide to reflect new KSD and revised processes related to Naval Shipyard requisitions.	Q4 FY 2018
Ensure updates to processes/control points are captured in Process Cycle Memorandum (PCM) and the KSD matrix, respectively.	Q4 FY 2018
Develop and conduct training for applicable stakeholders related to Naval Shipyard requisitions.	Q1 FY 2019
Commands to perform testing and collect evidentiary artifacts for three consecutive months as reasonable assurance controls are in place and working effectively based on test plans provided by Vice Director, Naval Staff (VDNS) Support team. Commands to report findings to VDNS Support team upon request.	Q2 FY 2019

Title of Material Weakness	
Navy Working Capital Fund (WCF) – Supply Management Moving Average Cost Valuation Discrepancies	
Description of Material Weakness	
<p>The Navy has identified problems with the Moving Average Cost (MAC) inventory value calculations in Navy Enterprise Resource Planning (ERP). Business processes currently in existence do not support accurate valuation of inventory, and Navy ERP is not designed to support the Navy's existing business practices that involve the use of estimated prices in funding documents/commercial contracts. These issues prevent the tracing of transactions from source documentation to dollar values on the Navy's financial statements. Inventory reported in the financial statements is not valued correctly in accordance with SFFAS #3 Accounting for Inventory and Related Property.</p>	
Internal Control Reporting Category	
Plan-to-Stock	
Targeted Correction Date	
Q4 FY 2019	
CAP Milestones	Status
Implemented and deployed the Navy ERP Single Supply Solution.	Completed
Engaged in discussions to refine the procurement contractual actions to support proper MAC valuations.	Completed
Submitted a waiver for Department of Defense (DoD) Financial Management Regulation (FMR) policy to allow the DON to use estimates for inventory valuation.	Completed
Completed valuation and reporting discovery.	Completed
Commercial Business Process Issues milestones on reviewing contracting practices and Federal Acquisition Regulation (FAR) clause use on estimating price were completed.	Q4 FY 2017
A Cross-Systems Commands (SYSCOM) Workgroup between affected BSOs, FMO, and FMP will be established to determine DON Working Capital Fund (WCF) Research and Development (R&D) business impact and potential DoD/DON FMR/policy change.	Q4 FY 2017
Determine specifications, fund, and design, and approve and implement an ERP system change request associated with organic repair.	Q1 FY 2019
Determine specifications, fund, and design, and approve and implement an ERP system change request associated with DoD External Vendor System Change.	Q1 FY 2019
Complete an independent validation of the material weakness remediation.	Q4 FY 2019

Title of Material Weakness	
Operating Materials & Supplies (OM&S)	
Description of Material Weakness	
<p>The Navy cannot demonstrate the ability to consistently perform and document annual physical inventories of OM&S and maintain clear audit trails to permit the tracing of transactions from source documentation to comply with established policy requiring source documentation for the reported OM&S dollar values.</p> <p>The Navy has not maintained historical cost data in legacy financial systems to comply with Generally Accepted Accounting Principles (GAAP). Legacy systems were designed for material management purposes but not designed to capture any financial information; therefore, the Navy cannot maintain the historical cost data necessary to comply with SFFAS.</p>	
Internal Control Reporting Category	
Plan-to-Stock	
Targeted Correction Date	
Q4 FY 2017	
CAP Milestones	Status
Reviewed and implemented corrective actions into inventory procedures to ensure compliance with Department of the Navy (DON) regulations.	Completed
Updated the OM&S Ordinance APSR to ensure a consistent and accurate Moving Average Cost (MAC) calculation.	Completed
Completed implementation of CR-482 to address limited existing Navy ERP functionality to accommodate OM&S contract cost components and structures.	Completed
Establish a basis for deemed cost valuation regarding the recognition of long-lived DON assets.	Q4 FY 2017
Evaluate and validate Budget Submitting Office (BSO) valuation methodologies as available.	Q4 FY 2017
Implement MAC calculation capabilities or will continue to validate the BSO's auditable work around processes.	Q4 FY 2017
BSOs to certify Existence and Completeness (E&C) of OM&S; the progress/status will be reassessed and BSO specific corrective action plans will be developed to address issues as necessary.	Q4 FY 2017
Perform an independent validation of the material weakness remediation.	Q4 FY 2017

Title of Material Weakness	
Visual Inter-Fund System Transaction (VISTA) Controls	
Description of Material Weakness	
Defense Finance and Accounting Services (DFAS) has insufficient controls in place to validate the effectiveness of VISTA system functionality for assigning a Line of Accounting (LOA) to inter-fund bills that result in MILSTRIP obligations or payables and disbursements on the general ledger .	
Internal Control Reporting Category	
Plan-to-Stock	
Targeted Correction Date	
Q1 FY 2018	
CAP Milestones	Status
Four control points were implemented by DFAS to validate VISTA business logic: <ul style="list-style-type: none"> • BP 2.2.1: Identified, logged and resolved processing errors. • BP 2.4.1: Transactions are valid and unique (not duplicated). • BP 3.3.1: System generated outputs/reports are reviewed to assure transaction integrity. • IN 1.2.1: Interface validation and correction of errors. 	Completed
DFAS performed an internal validation of VISTA controls.	Completed
Gathered evidentiary documentation of DFAS testing methodology and test control results.	Completed
Complete an independent validation of VISTA controls.	Q1 FY 2018

Title of Material Weakness	
Individuals without properly documented authority are approving purchase requests, purchase orders, and certifying invoices for payment.	
Description of Material Weakness	
The Navy's controls over approving and/or authorizing purchase transactions are not designed or operating effectively. Additionally, controls around receipt and acceptance, detection and correction of improper payments, and documentation retention need to be evaluated.	
Internal Control Reporting Category	
Procure-to-Pay	
Targeted Correction Date	
Q3 FY 2019	
CAP Milestones	Status
Revised and released SECNAVINST 7000.28, "Requirements of Delegation and Appointment Documentation," which clarified requirements for delegation and appointment documentation, as well as instructions of proper use of DD Form 577, "Appointment/Termination Record – Authorized Signature."	Completed
Released Financial Management Policy Letter 16-01, "Delegation or Authority to Appoint Accountable Officials," at the command level to provide guidance and authority for appointments.	Completed
Established a strike team within Director, Naval Staff to research the root cause and underlying deficiencies of the material weakness.	Completed
Document standard operating procedures for Military Standard Requisitioning and Issue Procedures (MILSTRIP), Contract Vendor Pay (CVP), and transportation of things transactions for each Budget Submitting Office (BSO), including current process around approving purchase requests, purchase orders, and certifying invoices for payment.	Q3 FY 2018
Perform a gap analysis of the process approving purchase requests, purchase orders, and certifying invoices for payment. Identify areas that lack controls over proper approval for payments and certifying of invoices.	Q3 FY 2018
Develop controls to improve processes over payment approval and certifying of invoices.	Q4 FY 2018
Obtain a decision from BSOs and Navy leadership on proposed changes, to business process documentation, to be incorporated by the Business Process Improvement (BPI) team through a quarterly release of Navy Enterprise Resource Planning and Legacy documentation.	Q4 FY 2018
Develop and perform a design review to confirm that updates to procedures are feasibly executable and that those updates to procedures will be sustainable at the command level. Obtain confirmation the test of design is complete from the Evaluate, Prioritize, and Remediate (EPR) team.	Q4 FY 2018
Implement change requests to Navy business process documentation after test of design is completed and confirmed by EPR.	Q4 FY 2018
Revise SOPs, or process flows, and the Office of Financial Operation's (FMO) Key Supporting Document (KSD) guide to reflect new KSD and revised processes related to approval of payments and certifying of invoices.	Q4 FY 2018

Coordinate with FMO BPI and the FMO Audit Response team to ensure updates to processes/control points are captured in Process Cycle Memorandum (PCM) and the KSD matrix, respectively.	Q4 FY 2018
Develop and conduct training for applicable stakeholders related to payment approval and certifying of invoices.	Q1 FY 2019
Commands to perform testing and collect evidentiary artifacts for three consecutive months as reasonable assurance controls are in place and working effectively based on test plans provided by Vice Director, Naval Staff (VDNS) Support team. Commands to report findings to VDNS Support team upon request.	Q2 FY 2019
Perform an independent validation of the material weakness remediation.	Q3 FY 2019

Title of Material Weakness	
Obligations are not timely recorded in the General Ledger (GL)	
Description of Material Weakness	
Lack of controls exist across multiple GL and contracting systems which cause delays in recording obligations in the proper accounting period following the obligation activity.	
Internal Control Reporting Category	
Procure-to-Pay	
Targeted Correction Date	
Q4 FY 2018	
CAP Milestone	Status
Increased communication with Budget Submitting Offices (BSO) to ensure obligations were not recorded any later than 10 calendar days per Department of Defense (DoD) 7000.14-R, "Department of Defense Financial Management Regulation," Vol. 3, Chapter 8.	Completed
Established methodologies to test adherence to the 10-day obligation period mandate. Promulgated requirements mandating two government employees maintain access to Electronic Document Access user accounts. Such access allows employees to receive contract load notifications to ensure timely reporting of transactions.	Completed
The United States Marine Corps (USMC) developed policies to provide additional guidance for internal control requirements related to the proper recording of obligations in Offline and Internet-Based requisitions.	Completed
Established a strike team within Director, Naval Staff to research the root cause and underlying deficiencies of the MW.	Completed
Document Standard Operating Procedures (SOP) for Reimbursable Work Order-Grantor, Reimbursable Work Order-Performer, Military Standard Requisitioning and Issue Procedures, Contract Vendor Pay (CVP), Transportation of Things transactions for each BSO, including the current process for how obligations are recorded in the GL.	Q2 FY 2018
Perform a gap analysis of the obligations process. Identify areas that lack controls over document retention and the process for how obligations are recorded in the GL.	Q2 FY 2018
Develop controls to improve processes over the obligations process and how those transactions are recorded in the GL.	Q2 FY 2018
Obtain a decision from BSOs and Navy leadership on proposed changes, to business process documentation, to be incorporated by the BPI team through a quarterly release of Navy Enterprise Resource Planning and Legacy documentation.	Q2 FY 2018
Develop and perform a design review to confirm that updates to procedures are feasibly executable and that those updates to procedures will be sustainable at the command level. Obtain confirmation the test of design is complete from EPR.	Q2 FY 2018
Implement change requests to Navy business process documentation after test of design is complete and confirmed by the Evaluate, Prioritize, and Remediate team.	Q3 FY 2018
Revise SOPs or process flows, and the Office of Financial Operation's (FMO) Key Supporting Document (KSD) guide to reflect new KSD and revised processes related to recording of obligations timely within the GL.	Q3 FY 2018

Ensure updates to processes/control points are captured in Process Cycle Memoranda (PCM) and the KSD matrix, respectively.	Q3 FY 2018
Develop and conduct training for applicable stakeholders related to recording of obligations timely within the GL.	Q3 FY 2018
Commands to perform testing and collect evidentiary artifacts for three consecutive months as reasonable assurance controls are in place and working effectively based on test plans provided by Vice Director, Naval Staff (VDNS) Support team. Commands to report findings to VDNS Support team upon request.	Q4 FY 2018
Perform an independent validation of the material weakness remediation.	Q4 FY 2018

Title of Material Weakness	
Transportation Account Controls (TAC)	
Description of Material Weakness	
<p>No effective controls are in place to prevent unauthorized use of TACs or unauthorized shipments from occurring. Transportation Officers across the Department of Defense (DoD) do not have the capability to determine if the shipping requestor is authorized to use the TAC cited on the shipping document or validate that sufficient funds are available prior to releasing for shipment. Additionally, interfaces among transportation and financial systems do not support exchange of all required transactional data.</p> <p>Without adequate controls to ensure sufficient funds are available before initiating shipments and the requesting activity uses the correct TACs, there is a risk that shipments are initiated when sufficient funding is not available or are charged to the incorrect program. This may put the Department of the Navy (DON) at risk of violating the Anti-Deficiency Act.</p>	
Internal Control Reporting Category	
Procure-to-Pay	
Targeted Correction Date	
Q3 FY 2019	
CAP Milestones	Status
Participated in Office of the Under Secretary of Defense (OUSD) Financial Improvement and Audit Readiness (FIAR)-led working groups to determine and develop DoD-wide solutions and mitigating strategies for the Material Weakness (MW).	Completed
Began implementing the Cargo Movement Operations System (CMOS) to standardize systems and processes across the transportation community within the DON.	Completed
Signed a memorandum of agreement outlining interim solutions for services to retrieve and share key supporting documents across the DON.	Completed
Expanded CMOS implementation.	Completed
Reassessed the MW and the remaining remediation requirements.	Completed
Define and socialize specific system requirements to implement TAC management internal controls with all applicable stakeholders.	Q1 FY 2018
Research and identify systems/platforms that can implement the approved controls.	Q1 FY 2018
Secure new funding for the development and/or required enhancements of a selected system/platform with a resource sponsor. Document necessary systems requirements and draft associated support agreements to identify enhancements needed to support proposed control points.	Q2 FY 2018
Begin development of a systematic internal controls solution/system.	Q3 FY 2018
Complete system testing, validation, and acceptance of system.	Q2 FY 2019
Issue official TAC management policies and provide stakeholder training on new business rules and procedures.	Q3 FY 2019
Perform an independent validation of the MW remediation.	Q3 FY 2019

Title of Material Weakness	
Retention of Transportation Documents	
Description of Material Weakness	
The Department of Defense (DoD) does not have a centralized process to maintain, store, and retrieve transportation documentation required to support Transportation of Things (ToT) transactions, management evaluation, and future examination/audits. The Department of the Navy (DON) has been unable to provide a reliable and sustainable process to maintain, store, and retrieve transportation documentation.	
Internal Control Reporting Category	
Procure-to-Pay	
Targeted Correction Date	
Q2 FY 2019	
CAP Milestones	Status
Participated in Office of the Under Secretary of Defense (OUSD) Financial Improvement and Audit Readiness (FIAR) -led working groups to determine and develop DoD-wide solutions and mitigating strategies.	Completed
Signed a memorandum of agreement outlining an interim solution for services to retrieve and share Key Supporting Documents (KSD) across the DON.	Completed
Developed a KSD matrix to house KSDs required to support DON business processes and sub-business processes. The DON also issued Naval Administrative (NAVADMIN) 066/16, directing commands to ensure Defense Department (DD) 577s are created and maintained for financial events.	Completed
Established a strike team within Director, Navy Staff to perform research into the root cause and underlying deficiencies of the Material Weakness (MW).	Completed
Document Standard Operating Procedures (SOP) for ToT transactions for each Budget Submitting Office (BSO) accounting system, including the current process for how ToT transactions are maintained, stored, and made available for examination during future audits.	Q3 FY 2018
Perform a gap analysis of the current process of maintaining, storing, and retrieving transportation documentation.	Q3 FY 2018
Identify areas that lack controls over document retention within the DON as well as external dependencies that exist to make certain the DON transportation documentation is maintained, stored, and retrieved for future examination (i.e. gathering documentation from third party providers, Defense Logistics Agency (DLA), etc.).	Q3 FY 2018
Develop controls to improve processes over retention of transportation documentation within the DON.	Q4 FY 2018
Obtain a decision from BSOs and Navy leadership on proposed changes to business process documentation to be incorporated by the Business Process Improvement team through a quarterly release of Navy Enterprise Resource Planning (ERP) and Legacy documentation.	Q4 FY 2018
Develop and perform a design review to confirm that updates to procedures are feasibly executable and that those updates to procedures will be sustainable at the command level.	Q4 FY 2018

Revise SOPs, or process flows, and Office of Financial Operations' KSD guide to reflect new KSD and revised processes related to transportation documentation. Ensure updates to processes/control points are captured in Process Cycle Memorandums (PCM) and the KSD matrix, respectively.	Q4 FY 2018
Develop and conduct training for applicable stakeholders related to retention of transportation documentation.	Q1 FY 2019
Commands to perform testing and collect evidentiary artifacts for three consecutive months as reasonable assurance controls are in place and working effectively based on test plans provided by Vice Director, Naval Staff (VDNS) Support team. Commands to report findings to VDNS Support team upon request.	Q2 FY 2019
Perform an independent validation of the MW remediation.	Q2 FY 2019

Title of Material Weakness	
Military Sealift Command (MSC) liquidations and payments lack supporting receipt and acceptance documentation for the USMC	
Description of Material Weakness	
Military Sealift Command (MSC) liquidations and payments lack supporting receipt and acceptance documentation for the United States Marine Corps (USMC). Delivery confirmation documentation is not received from Defense Contract Management Agency (DCMA) as required.	
Internal Control Reporting Category	
Procure-to-Pay	
Targeted Correction Date	
Q4 FY 2017	
CAP Milestones	Status
MSC provided signed invoice review billings to reconcile with liquidations.	Completed
MSC conducted a site visit to improve relationships with data providers and data gathering consistency.	Completed
Improved USMC and MSC collaboration to provide source documentation.	Completed
Complete an independent validation of the material weakness corrective action plan.	Q4 FY 2017

Title of Material Weakness	
Shared Service Provider (SSP) Oversight	
Description of Material Weakness	
<p>The Department of the Navy (DON) has not established sufficient procedures to provide oversight of the third-party Shared Service Provider (SSP) that process, store, or transmit Navy financial data. The Navy does not have a comprehensive set of governance and oversight agreements. It lacks Service Level Agreements (SLA), Memorandums of Understanding (MOUs,) or other documents to clearly outline roles and responsibilities of the Navy and its service providers with respect to controls over processes performed. Controls over financial Information Technology (IT) systems are insufficient.</p>	
Internal Control Reporting Category	
Budget-to-Report, Hire-to-Retire, Order-to-Cash, Procure-to-Pay, Acquire-to-Retire, Plan-to-Stock	
Targeted Correction Date	
Q2 FY 2018	
CAP Milestones	Status
Completed inclusion of 39 process level Complementary User Entity Controls (CUEC) into the Navy Business Process Standards to demonstrate the existence of CUECs at the Budget Submitting Office (BSO) level.	Completed
Issued DON General IT Control CUEC Guidebooks to BSOs to assist with DON policy implementation at the BSO level.	Completed
Finalized FY 2016 Service Organization Control (SOC) 1 Report Evaluations, which provide insight into the DON's internal control environment and demonstrate the impact of third-party deficiencies to DON data.	Completed
BSOs' developed General Information Technology Controls (GITC) CUEC designs to adhere to DON policies at the BSO level.	Completed
Develop methodology to test the operating effectiveness of DON-owned controls to ensure compliance with DON Business Process Standards. This step will require the implementation of pilot testing for Civilian Pay (CIVPAY) and Transportation of People (ToP) at BSO levels using Legacy and Navy Enterprise Resource Planning (ERP) systems, and an analysis of the testing results to ensure reliability of key controls within each business segment.	Q4 FY 2017
Develop SLAs with five SSPs (Defense Finance and Accounting Service (DFAS), Defense Logistics Agency (DLA), Defense Manpower Data Center (DMDC), Defense Contract Management Agency (DCMA), and U.S. Bancorp). The SLAs require coordination with each SSP to define roles/responsibilities for controls over processes performed by each SSP.	Q4 FY 2017
As part of sustainment efforts, analyze FY 2017 SOC1 Reports and implement process-level CUECs not aligned to DON Business Process Standards. Office of Financial Management and BSOs will execute control test plans to assess that DON-owned controls are compliant with DON Business Processes.	Q2 FY 2018
Analyze FY 2017 SOC1 reports for all services and systems applicable to the DON, resulting in finalized FY 2017 SOC1 Report Evaluations.	Q3 FY 2018
Complete an independent validation of the material weakness remediation.	Q2 FY 2018

Title of Material Weakness	
Reimbursable Work Order (RWO) Controls	
Description of Material Weakness	
The Reimbursable Work Order – Grantor/Performer (RWO-G/P) process lacks controls. The Navy’s control environment is not designed and/or operating effectively to verify or validate RWO-G/P transactions are authorized, approved, properly posted, accurate, and complete. There is a potential audit risk that the Navy’s financial statements do not accurately account for undelivered orders, accounts receivables, or year-end accruals, which could result in invalid and/or unauthorized transactions.	
Internal Control Reporting Category	
Budget-to-Report, Order-to-Cash, Procure-to-Pay	
Targeted Correction Date	
Q4 FY 2020	
CAP Milestones	Status
Completed all corrective actions, including implementing controls over Delegation of Authority (DoA) or Defense Department (DD) 577, executing the Triannual Review (TAR) process to ensure all undelivered Reimbursable Work Order (RWO) and Accounts Receivable (A/R) represent valid transactions, and reimbursable agreements represent a valid need, improving control procedures 10, 01, 05, and 23.	Completed
Released Policy Memorandum 4-16 to guide the RWO process.	Completed
Completed all corrective actions, including improvement to analysis and decision making on documentation supporting TAR submissions, reviewed existing Standard Accounting Reporting System (STARS) TAR data files, improved guidance for subsequent TAR periods, and worked with stakeholders to finalize TAR standard operating procedures.	Completed
Completed all corrective actions; issued Naval Administrative (NAVADMIN) 066/16 Navy Audit Document Retention Guidance; completed multiple interim milestones for G-Invoicing/Invoice Processing Platform (IPP) implementation, along with a proof of concept demo.	Completed
Office of the Secretary of Defense updated the Intra-Governmental Data Standard (IGDS) based on discussions with Treasury to resolve gaps between IGDS and the Federal Data Standard for orders.	Completed
Established bi-monthly meetings to identify and review policies, standard operating procedures, regulations, and system updates required to fully address the broad scope of the weakness.	Completed
Hold bi-monthly meetings with Offices of Primary Responsibilities (OPR) to determine policies, standard operating procedures, regulations, and system change requirements.	Q4 FY 2017
Document test procedures and timelines (per discussions with OPRs) for the validation of procedures and system change requirements necessary to remediate the Material Weakness (MW).	Q1 FY 2018
Perform validation on the short-term solution’s effectiveness towards remediation of the MW.	Q3 FY 2018

Implement G-Invoicing, Global Exchange (GEX) interface, and Invoice IPP data standards to improve the RWO-G/P process.	Q4 FY 2019
Perform an independent validation of the MW corrective action plan. Note: G-Invoicing implementation is dependent on Department of Defense's timeline, which in turn is dependent on the software vendor's timeline to release a software version that reflects the Federal Intra-Governmental Transaction (IGT) Data Standard.	Q4 FY 2020

Title of Material Weakness	
Offline Military Standard Requisitioning and Issue Procedures (MILSTRIP) Requisitions	
Description of Material Weakness	
Defense Logistics Agency (DLA) and General Services Administration (GSA) have established off-line requisition systems to access and purchase catalogued or GSA schedule products. These systems do not include the necessary interfaces with the supply and financial automated systems; therefore, incomplete information has resulted in invalid accounting entries and Prompt Payment Act violations (This issue is one of the causes relating to the weakness in timely recording of obligations).	
Internal Control Reporting Category	
Procure-to-Pay, Plan-to-Stock	
Targeted Correction Date	
Q4 FY 2018	
CAP Milestones	Status
Developed and implemented policy and procedures to improve the recording of Military Standard Requisitioning and Issue Procedures (MILSTRIP) and Government Commercial Purchase Card purchases in Standard Accounting Budgeting Reporting System (SABRS).	Completed
Implement the Fund Control Interface with DLA to ensure the Department of the Navy (DON) meets requirements for DLA Logistics Management System (DLMS) on requisitioning and internal ordering.	Q2 FY 2018
Conduct SABRS Electronic Mall (EMALL) Federal Mall (FEDMALL) testing to validate effectiveness of the Funds Control Interface.	Q4 FY 2018
Perform an independent validation of the material weakness remediation.	Q4 FY 2018

Material Weaknesses Corrected During the Period

Title of Material Weakness	
Monitoring Open MILSTRIP Commitments	
Description of Material Weakness	
The Navy's internal control reconciliation process Unliquidated Obligations (ULO) is not designed to effectively monitor if open Military Standard Requisitioning and Issue Procedures (MILSTRIP) commitments and obligations represent a bona fide need.	
Internal Control Reporting Category	
Plan-to-Stock	
Targeted Correction Date	
Closed Q3 FY 2017	
CAP Milestones	Status
Created a comprehensive MILSTRIP ULO reconciliation process designed to review all dormant transactions, regardless of dollar thresholds or overage criteria.	Completed
Assessed requirements and developed strategies to integrate MILSTRIP ULO requirements with the consolidated Department of the Navy (DON)-wide Triannual Review (TAR) approach.	Completed
Released updated TAR Guidance to all Budget Submission Offices (BSO) mandating standardized reporting of ULOs for all financial transactions.	Completed
Updated the DON's Financial Management Regulation (FMR) to include six risk mitigation procedures regarding ULOs that directly address the Material Weakness (MW).	Completed
The DON Managers' Internal Control Program (MICP) Office performed an independent validation of the MW remediation. The Senior Assessment Team and Senior Management Council voted to close the MW on 17 May 2017 and 21 June 2017, respectively.	Completed

Financial Management Systems Material Weaknesses /Nonconformances

The following table lists the MWs/nonconformances in Internal Controls over Financial Systems (ICOFS) for FY 2017 and incorporates changes from the FY 2016 DON SOA.

Effectiveness of Internal Controls over Financial Systems (FMFIA Section 4 and FFMIA)					
Statement of Assurance: Modified Assurance					
Non-Conformances	FY 2017 Beginning Balance	New	Resolved	Reassessed	FY 2017 Ending Balance
Financial Management Systems	9		(1)		8
Total System Conformance Material Weaknesses	9		(1)		8

Uncorrected Material Weaknesses/Nonconformances Identified During Prior Periods					
Non-Conformances	Title of Material Weakness	First Year Reported	FY 2016 Targeted Correction Date	Revised Targeted Correction Date	Page #
Financial Management Systems	The Navy ERP system currently has numerous Segregation of Duties (SOD) deficiencies	FY 2015	Q2 FY 2017	Q4 FY 2019	84
Financial Management Systems	The Navy ERP system is not compliant with the Standard Financial Information Structure (SFIS)	FY 2015	Q4 FY 2017	Q4 FY 2019	85
Financial Management Systems	DON lacks guidance and validation processes to resolve system FISCAM deficiencies	FY 2011	Q4 FY 2017	Q4 FY 2017	86
Financial Management Systems	Standard Accounting and Reporting System-Field Level (STARS-FL) deficiencies including interface issues, business process transaction policy, procedures, and documentation issues along with master data issues	FY 2015	Q4 FY 2017	Q4 FY 2025	87
Financial Management Systems	USMC Global Combat Support System (GCSS) Deficiencies	FY 2014	Q2 FY 2017	Q2 FY 2018	88

Uncorrected Material Weaknesses/Nonconformances Identified During Prior Periods

Non-Conformances	Title of Material Weakness	First Year Reported	FY 2016 Targeted Correction Date	Revised Targeted Correction Date	Page #
Financial Management Systems	STARS-FL has numerous deficiencies in the areas of SOD, reconciliation, pre-validation edit checks, and other internal controls	FY 2015	Q4 FY 2017	Q4 FY 2025	89
Financial Management Systems	The DoD Information Assurance Certification and Accreditation Process (DIACAP) failed to produce the audit ready control environment	FY 2015	Q4 FY 2017	Q4 FY 2019	90
Financial Management Systems	Financial System owners lack standardized and specific control criteria guidance	FY 2015	Q4 FY 2017	Q1 FY 2018	91

Material Weaknesses/Nonconformances Corrected During the Period

Non-Conformances	Title of Material Weakness	Targeted Correction Date	Page #
Financial Management Systems	DON IT Governance Forum	Q4 FY 2017	92

Uncorrected Material Weaknesses/Nonconformances Identified During Prior Periods

Title of Material Weakness	
The Navy ERP system currently has numerous Segregation of Duties (SOD) deficiencies	
Description of Material Weakness	
The Navy Enterprise Resource Planning (ERP) system currently has Segregation of Duties (SOD) deficiencies, including incompatible roles, SOD matrix, periodic reviews, SOD conflicts, privileged users, policies and procedures documentation, and extensive permissions.	
Internal Control Reporting Category	
Budget-to-Report, Hire-to-Retire, Order-to-Cash, Procure-to-Pay, Acquire-to-Retire, Plan-to-Stock	
Targeted Correction Date	
Q4 FY 2019	
CAP Milestones	Status
Led a Governance, Risk, and Compliance (GRC) Project to analyze, remediate, and/or mitigate SOD deficiencies in Navy ERP.	Completed
Developed policies and procedures to manage and monitor SOD deficiencies and risks, such as implementing a SOD matrix, documenting processes for system accesses, performing risk assessments, and managing privileged user accounts (administrative users).	Completed
Implemented the first GRC product to re-enforce user access.	Completed
Performed monthly reviews of Navy ERP privileged user Database Administrator (DBA) and Operating System (OS) accesses.	Completed
Developed a detailed FY 2017 corrective action plan with comprehensive milestones to address the Material Weakness (MW).	Completed
Executed the first full user access review against 67,000 users.	Completed
Deployed internal control monitoring by Navy Enterprise Business Solutions (PMW 220) (the system owner) to ensure proper execution of the user access reviews by the Navy ERP command business offices and service providers.	Completed
Deploy an automated daily account de-activation and termination procedure for ineligible/inactive accounts.	Q2 FY 2018
Educate Navy ERP users regarding SOD risks; Authorize the acquisition of a second Commercial Off-the-Shelf (COTS) SOD mitigation tool to automate the SOD risk mitigation report process review.	Q4 FY 2017
Execute the second user access review with the new SAP service pack to increase automated review process success rates to 98%.	Q2 FY 2018
Implement the second COTS SOD application to automate SOD risk mitigation reviews.	Q4 FY 2018
Implement cybersecurity resources to monitor control effectiveness, as required by the Risk Management Framework.	Q4 FY 2018
Remove inherent risks from Navy ERP by allowing organizational changes within the System Commands and taking SOD risks away from Navy ERP users; this remediation is not a pre-requisite to close the MW, but it is a cost-reduction initiative for the DON to reduce SOD risks.	Q4 FY 2019
Perform an independent validation of the MW remediation.	Q4 FY 2019

Title of Material Weakness	
The Navy ERP system is not compliant with the Standard Financial Information Structure (SFIS)	
Description of Material Weakness	
The Navy Enterprise Resource Planning (ERP) system is currently not compliant with SFIS, which is updated regularly and part of the Department of Defense (DoD) Business Enterprise Architecture handling financial management.	
Internal Control Reporting Category	
Budget-to-Report, Hire-to-Retire, Order-to-Cash, Procure-to-Pay, Acquire-to-Retire, Plan-to-Stock	
Targeted Correction Date	
Q4 FY 2019	
CAP Milestones	Status
Completed implementation of 51 of 70 data elements.	Completed
The Executive Steering Group (ESG) authorized and funded FY 2018 SFIS remediation efforts.	Completed
Develop a holistic SFIS implementation plan with support from the Assistant Secretary of the Navy (Financial Management & Comptroller) and Navy ERP System Commands' new Chart of Account (CoA), Posting Logic, Business Rules, and associated changes to financial reports and interfaces.	Q1 FY 2018
Implement all but one of the remaining data elements during the Fiscal Year (FY) 2018 work plan (implementation pushed back to FY 2018 to reduce the risk associated with their implementation if done in tandem with the scheduled technical upgrade to the system).	Q4 FY 2018
Complete Navy ERP SFIS readiness.	Q4 FY 2019
Perform testing by Defense Finance and Accounting Service (DFAS) and Joint Interoperability Test Command (JITC).	Q4 FY 2019
Perform an independent validation of the material weakness remediation.	Q4 FY 2019

Title of Material Weakness	
DON lacks guidance and validation processes to resolve system Federal Information System Controls Audit Manual (FISCAM) deficiencies	
Description of Material Weakness	
The Department of the Navy (DON) lacks guidance and validation processes to ensure that DON systems material to the financial statement have resolved deficiencies in FISCAM domains.	
Internal Control Reporting Category	
Budget-to-Report, Hire-to-Retire, Order-to-Cash, Procure-to-Pay, Acquire-to-Retire, Plan-to-Stock	
Targeted Correction Date	
Q4 FY 2017	
CAP Milestones	Status
Department of Defense (DoD) instruction issued that mandated transition from DoD Information Assurance Certification and Accreditation Process (DIACAP) to Risk Management Framework (RMF), which provides a better risk management process for audit readiness.	Completed
Published RMF Financial Management (FM) Overlay guidance and Enterprise Information Technology (IT) Control Standards.	Completed
Addressed 80% of FISCAM deficiencies.	Completed
Establish Enterprise Continuous Monitoring Program (ECMP) to guide sustainment efforts and ensure any new FISCAM deficiencies are identified and addressed.	Q4 FY 2017
Perform an independent validation of the material weakness remediation.	Q4 FY 2017

Title of Material Weakness	
Standard Accounting and Reporting System-Field Level (STARS-FL) deficiencies, including interface issues, business process transaction policy, procedures, and documentation issues along with master data issues	
Description of Material Weakness	
STARS-FL deficiencies, including interface issues, business process transaction policy, procedures, and documentation issues along with master data issues.	
Internal Control Reporting Category	
Budget-to-Report, Hire-to-Retire, Order-to-Cash, Procure-to-Pay, Acquire-to-Retire, Plan-to-Stock	
Targeted Correction Date	
Q4 FY 2025	
CAP Milestones	Status
Issued a memo directing the migration from STARS to Standard Accounting Budgeting Reporting System (SABRS).	Completed
Completed four migrations (Department of the Navy/Assistant for Administration; Commander, Navy Installations Command; Field Support Activity; and Naval Intelligence Activity).	Completed
Complete Naval Weapons Support Center and Bureau of Naval Personnel migrations from STARS-FL to SABRS.	Q1 FY 2018
Complete last four migrations (Fleet Forces Command, U.S. Pacific Fleet, Reserve Forces, and Naval Facilities Engineering Command). Bureau of Medicine and Surgery) begins transition from STARS to General Fund Enterprise Business Systems (GFEBS) (or other Defense Health Agency system).	Q1 FY 2019
Continue to conduct prior year business in STARS-FL until a solution for transferring prior business to SABRS becomes available. All Budget Submitting Offices are scheduled to complete migration to SABRS in this quarter.	Q1 FY 2019 - Q4 FY 2024
Shut down STARS-FL.	Q1 FY 2025
Complete an independent validation of the material weakness remediation.	Q4 FY 2025

Title of Material Weakness	
USMC Global Combat Support System (GCSS) Deficiencies	
Description of Material Weakness	
The deficiencies for GCSS - Marine Corps (GCSS-MC) span across multiple control categories defined in the Government Accountability Office Federal Information System Controls Audit Manual (FISCAM), including application level general controls, access controls, system interfaces, and configuration management controls.	
Internal Control Reporting Category	
Plan-to-Stock	
Targeted Correction Date	
Q2 FY 2018	
CAP Milestones	Status
Communicated findings from GCSS-MC Program Management Office (PMO), Installations and Logistics (I&L) and Programs and Resources (P&R), and determined the actions to resolve each finding.	Completed
Published Finding (3.F) Follow the USMC Incident Response Policy (C4 document).	Completed
Scheduled Finding (3.H) Annual contingency plan test for March 2015. Earliest 2015 evidence would be available after March.	Completed
Completed policy update between I&L and Marine Corps Systems Command (MARCORSYSCOM).	Completed
Implemented policy.	Completed
Developed Continuity of Operations Plan and segregation of duties policy to guide operation and access/use of GCSS-MC.	Completed
Provided evidence of reviews and testing of documents supporting the system.	Completed
Developed procedures for reviewing system alerts.	Completed
Implement password and account configuration settings to improve the security posture of the database.	Q2 FY 2018
Implement Oracle 12 to improve internal controls over user access to the system.	Q2 FY 2018
Perform an independent validation of the material weakness remediation.	Q2 FY 2018

Title of Material Weakness	
Standard Accounting and Reporting System-Field Level (STARS-FL) has numerous deficiencies in the areas of Segregation of Duties (SOD), reconciliation, pre-validation edit checks, and other internal controls	
Description of Material Weakness	
STARS-FL has numerous deficiencies in the areas of SOD, reconciliation, pre-validation edit checks, and other internal controls.	
Internal Control Reporting Category	
Budget-to-Report, Hire-to-Retire, Order-to-Cash, Procure-to-Pay, Acquire-to-Retire, Plan-to-Stock	
Targeted Correction Date	
Q4 FY 2025	
CAP Milestones	Status
Issued a memo directing the migration from STARS-FL to Standard Accounting Budgeting Reporting System (SABRS).	Completed
Completed four migrations (Department of the Navy Assistant for Administration; Commander, Navy Installations Command; Field Support Activity; and Naval Intelligence Activity).	Completed
Complete Naval Weapons Support Center and Bureau of Navy Personnel migrations from STARS-FL to SABRS.	Q1 FY 2018
Complete last four migrations (Fleet Forces Command; Commander, U.S. Pacific Fleet; Commander, Navy Reserve Force; and Naval Facilities Engineering Command). Navy Bureau of Medicine and Surgery begins transition from STARS to General Fund Enterprise Business Systems (GFEBS) (or other Defense Health Agency system).	Q1 FY 2019
Continue to conduct prior year business in STARS-FL until a solution for transferring prior business to SABRS becomes available. All budget submitting offices are scheduled to complete migration to SABRS in this quarter.	Q1 FY 2019 - Q4 FY 2024
Shut down STARS-FL.	Q1 FY 2025
Complete an independent validation of the material weakness remediation.	Q4 FY 2025

Title of Material Weakness	
The Department of Defense (DoD) Information Assurance Accreditation and Certification Process (DIACAP) failed to produce the audit ready control environment	
Description of Material Weakness	
The DIACAP failed to produce the audit ready control environment as delineated in the National Institute of Standards and Technology Special Publications (NIST SP) and the Government Accountability Office (GAO) Federal Information System Controls Audit Manual (FISCAM).	
Internal Control Reporting Category	
Budget-to-Report, Hire-to-Retire, Order-to-Cash, Procure-to-Pay, Acquire-to-Retire, Plan-to-Stock	
Targeted Correction Date	
Q4 FY 2019	
CAP Milestones	Status
Developed policy to transition DIACAP to Risk Management Framework (RMF), which superseded policy for transitioning to Risk Management Program.	Completed
Completed the RMF-Financial Management (FM) Overlay to supplement the RMF for financial systems.	Completed
Completed successful pilot program to test the RMF transition process.	Completed
Complete transition from DIACAP to the RMF with FM Overlay for Level 1 and 2 audit relevant systems.	Q4 FY 2019
Perform an independent validation of the material weakness remediation.	Q4 FY 2019

Title of Material Weakness	
Financial System owners lack standardized and specific control criteria guidance	
Description of Material Weakness	
Financial System owners lacked standardized and specific Information Technology (IT) control criteria guidance for system audit readiness.	
Internal Control Reporting Category	
Budget-to-Report, Hire-to-Retire, Order-to-Cash, Procure-to-Pay, Acquire-to-Retire, Plan-to-Stock	
Targeted Correction Date	
Q1 FY 2018	
CAP Milestones	Status
Developed Enterprise IT Control Standards for financial systems owners.	Completed
Issued a memorandum requiring compliance with Department of the Navy (DON) IT Control Standards and directing system owners to employ the DON Enterprise IT Controls Standards.	Completed
Complete an independent validation of the material weakness remediation.	Q1 FY 2018

Material Weaknesses/Nonconformances Corrected During the Period

Title of Material Weakness	
DON IT Governance Forum	
Description of Material Weakness	
The Navy lacked a governance forum to address financial systems planning and control implementation and management at the enterprise level.	
Internal Control Reporting Category	
IT Governance	
Targeted Correction Date	
Q4 FY 2017	
CAP Milestones	Status
Chartered Information Technology (IT) governance forums, policy memoranda, and standard operating procedures already in place.	Completed
Began tracking meeting minutes and voting results for IT governance organizations.	Completed
Demonstrated active participation in Standard Accounting Reporting System (STARS) governance boards.	Completed
Began maintaining oversight into planning, control, and implementation of multiple DON systems.	Completed
The DON Senior Assessment Team voted to close the material weakness on 21 July 2017. The Senior Management Council voted in support of the closure on 01 August 2017.	Completed

Attachment 1: Acronym List

Acronym	Term
A/OPC	Agency/Organization Program Coordinator
A/P	Accounts Payable
A/R	Accounts Receivable
AC	Access Control
ACMC	Assistant Commandant of the Marine Corps
ADA	Anti-Deficiency Act
ADE	Authoritative Data Environment
ADM	Aviation Depot Maintenance
AIRRS	Aircraft Inventory and Readiness Reporting System
AJE	Adjusted Journal Entry
AM	Asset Management
AO	Action Officer
APSR	Accountable Property System of Record
ARC	Audit Response Center
ASN	Assistant Secretary of the Navy
ASN (EI&E)	Assistant Secretary of the Navy (Energy, Installations, and Environment)
ASN (FM&C)	Assistant Secretary of the Navy (Financial Management and Comptroller)
ASN (M&RA)	Assistant Secretary of the Navy (Manpower and Reserve Affairs)
ASN (RD&A)	Assistant Secretary of the Navy (Research, Development, and Acquisition)
AU	Assessable Unit
AU	Audit and Accountability
AUP	Agreed Upon Procedure
BP	Business Process
BPACS	Business Process Application Controls
BPC	Building Partner Capacity
BPI	Business Process Improvement
BSO	Budget Submitting Office
BTS	Business Transaction Systems
BUMED	Navy Bureau of Medicine and Surgery
BUPERS	Bureau of Navy Personnel
C4	Command, Control, Communications & Computers
CA	Security Assessment and Authorization
CAMS-ME	Capital Asset Manager System - Military Equipment
CAP	Corrective Action Plan
CBA	Centrally Billed Accounts

Acronym	Term
CHINFO	Chief of Information
CIO	Chief Information Officer
CIP	Construction in Progress
CIVPAY	Civilian Payroll
CM	Configuration Management
CMC	Commandant of the Marine Corps
CMOS	Cargo Movement Operations System
CNIC	Commander, Navy Installations Command
CNO	Chief of Naval Operations
CoA	Chart of Account
CONOPS	Concept of Operations
COR	Contracting Officers' Representative
COTS	Commercial Off-the-Shelf
CR	Change Request
CUEC	Complementary User Entity Control
CNP	Chief of Naval Personnel
CVP	Contract/Vendor Pay
DASN (AP)	Deputy Assistant Secretary of the Navy (Acquisition and Procurement)
DASN (FMP)	Deputy Assistant Secretary of the Navy (Financial Policy and Systems)
DASN (FO)	Deputy Assistant Secretary of the Navy (Financial Operations)
DBA	Database Administrator
DCAA	Defense Contract Audit Agency
DCAS	Defense Cash Accountability System
DCMA	Defense Contract Management Agency
DD	Defense Department
DDRS	Defense Departmental Reporting System
DDRS-B	Defense Departmental Reporting System - Budgetary
DDRS-ITD	Defense Departmental Reporting System - Inception-to-Date
DFAS	Defense Finance and Accounting Service
DHA	Defense Health Agency
DIACAP	DoD Information Assurance Certification and Accreditation Process
DJMS	Defense Joint Military Pay System
DLA	Defense Logistics Agency
DLMS	DLA Logistics Management Standards
DMDC	Defense Manpower Data Center
DMLSS	Defense Medical Logistics Standard Support
DNS	Director, Navy Staff
DoA	Delegation of Authority
DoD	Department of Defense

Acronym	Term
DoD FMR	Department of Defense Financial Management Regulation
DoDI	Department of Defense Instruction
DoDIG	Department of Defense Inspector General
DON	Department of the Navy
DON/AA	Department of the Navy Assistant for Administration
DPAS	Defense Property Accountability System
DPIS	Date Placed-In-Service
DTS	Defense Travel System
DUSN (M)	Deputy Under Secretary of the Navy (Management)
DUSN (P)	Deputy Under Secretary of the Navy (Policy)
E&C	Existence and Completeness
ECMP	Enterprise Continuous Monitoring Program
ECS	Enterprise Control Standards
EDA	Electronic Document Access
EFT	Electronic Funds Transfer
ELC	Entity Level Control
EMALL	Electronic Mail
EPR	Evaluation Prioritization Remediation
ERP	Enterprise Resource Planning
ESG	Executive Steering Group
ESL	Estimated Service Life
ESS	Enterprise Standard and Solution
EXMIS	Expeditionary Management Information System
FAR	Federal Acquisition Regulation
FASTDATA	Fund Administration and Standardized Document Automation
FBwT	Fund Balance with Treasury
FECA	Federal Employees Compensation Act
FEDMALL	Federal Mall
FFC	Fleet Forces Command
FFMIA	Federal Financial Management Improvement Act
FIAR	Financial Improvement and Audit Readiness
FIS	Facilities Information System
FISCAM	Federal Information System Controls Audit Manual
FISWG	Financial Information Systems Working Group
FLC	Fleet Logistics Center
FLJV	Field-Level Journal Voucher
FM	Financial Management
FM&C	Financial Management and Comptroller
FMFIA	Federal Managers' Financial Integrity Act

Acronym	Term
FMO	Office of Financial Operations
FMP	Financial Policy and Systems
FMR	Financial Management Regulation
FMS	Foreign Military Sales
FRD	Funds, Receipt, and Distribution
FSA	Field Support Activity
FSCR	Financial Statement Compilation and Reporting
FY	Fiscal Year
GAAP	Generally Accepted Accounting Principles
GAO	Government Accountability Office
GCPC	Government Commercial Purchase Card
GCSS	Global Combat Support System
GCSS-MC	Global Combat Support System - Marine Corps
GE	General Equipment
GEX	Global Exchange
GF	General Fund
GFEBs	General Fund Enterprise Business Systems
GIS	Geographic Information System
GITC	General Information Technology Controls
GL	General Ledger
GLAS	General Ledger Accounting Systems
GPC	Government Purchase Card
GRC	Governance, Risk Management, and Compliance
GSA	General Services Administration
GTCC	Government Travel Charge Card
HQMC	Headquarters, Marine Corps
HR	Human Resources
HRO	Human Resource Office
HSP	Husbanding Service Provider
I&L	Installations and Logistics
IA	Identification and Authentication
IBA	Individually Billed Accounts
ICO	Internal Controls over Operations
ICOFR	Internal Control over Financial Reporting
ICOFS	Internal Controls over Financial Systems
IGDS	Intra-Governmental Data Standard
IGT	Intra-Governmental Transaction
IMPS	Integrated Management Processing System
IN	Inventory

Acronym	Term
iNFADS	Internet Navy Facilities Asset Data Store
IOC	Initial Operational Capability
IOP	Internal Operation Procedure
IPA	Independent Public Accountant
IPIA	Improper Payments Information Act
IPO	International Programs Office
IPP	Invoice Processing Platform
IPPS-N	Integrated Personnel and Pay Solution - Navy
iRAPT	Invoicing, Receipt, Acceptance, and Property Transfer
IT	Information Technology
IV&V	Impartial Verification and Validation
JITC	Joint Interoperability Test Command
JV	Journal Voucher
JRB	Joint Reserve Base
KSD	Key Supporting Document
LOA	Line of Accounting
MAC	Moving Average Cost
MAC	Multiple Award Contract
MARCORSYSCOM	Marine Corps Systems Command
MAU	Major Assessable Unit
MCSC	Marine Corps System Command
MICP	Managers' Internal Control Program
MILCON	Military Construction
MILPAY	Military Pay
MIL-STD	Military Standard
MILSTRIP	Military Standard Requisitioning and Issue Procedures
MNCC	National Military Command Center
MOE	Measures of Effectiveness
MOU	Memorandum of Understanding
MPT&E	Manpower Personnel Training and Education
MSC	Military Sealift Command
MSC FMS	Military Sealift Command Financial Management System
MSR	Monthly Status Report
MUOS	Mobile User Objective System
MW	Material Weakness
NAS	Naval Air Station
NAVADMIN	Naval Administrative
NAVAIR	Naval Air Systems Command
NAVAUDSVC	Naval Audit Service

Acronym	Term
NAVFAC	Naval Facilities Engineering Command
NAVINGEN	Naval Inspector General
NAVSEA	Naval Sea Systems Command
NAVSUP	Naval Supply Systems Command
NCIS	Naval Criminal Investigative Service
NETC	Naval Education and Training Command
NFR	Notice of Findings and Recommendations
NIA	Naval Intelligence Activity
NIST	National Institute of Standards and Technology
NIST SP	National Institute of Standards and Technology Special Publication
NSIPS	Navy Standard Integrated Personnel System
NSMA	Navy Systems Management Activity
NWSC	Naval Weapons Support Center
OCHR	Office of Civilian Human Resources
OGC	Office of General Counsel
OJAG	Office of Judge Advocate General
OLA	Office of Legislative Affairs
OM&S	Operating Materials and Supplies
OMB	Office of Management and Budget
ONR	Office of Naval Research
OPNAV	Office of the Chief of Naval Operations
OPNAVINST	Office of Naval Operations Instruction
OPR	Office of Primary Responsibility
OS	Operating System
OSBP	Office of Small Business Programs
OSD	Office of the Secretary of Defense
OUSD	Office of the Under Secretary of Defense
P&R	Programs and Resources
PACFLT	Commander, U.S. Pacific Fleet
PBIS	Program Budget Information System
PCM	Process Cycle Memorandum
PCO	Procurement Contracting Officer
PERS	Personnel
PERS-Pay	Personnel Pay Division
PII	Personally Identifiable Information
PIS	Placed-In-Service
PKI	Public Key Infrastructure
PMO	Program Management Office
PMW	Program Manager, Warfare

Acronym	Term
POA&M	Plan of Action and Milestones
PP&E	Property Plant & Equipment
PPBE	Planning, Programming, Budgeting, and Execution
PPMAP	Procurement Performance Management Assessment Program
PRV	Property Replacement Value
PVI	Periodic Virtual Inventory
Q1	Quarter 1
Q2	Quarter 2
Q3	Quarter 3
Q4	Quarter 4
RA	Risk Assessment
R&D	Research and Development
RDT&E	Research, Development, Test, and Evaluation
RESFOR	Commander, Navy Reserve Force
RMF	Risk Management Framework
RMI	Risk Management Information
RP	Real Property
RPUID	Real Property Unique Identifier
RWO	Reimbursable Work Order
RWO-G	Reimbursable Work Order - Grantor
RWO-P	Reimbursable Work Order - Performer
RWO-G/P	Reimbursable Work Order – Grantor/Performer
SABRS	Standard Accounting Budgeting Reporting System
SAO	Senior Accountable Official
SAP	Special Access Programs
SAT	Senior Assessment Team
SBR	Statement of Budgetary Resources
SBT	Standard Business Transaction
SD	Significant Deficiency
SDM	Ship Depot Maintenance
SECNAV	Secretary of the Navy
SECNAVINST	Secretary of the Navy Instruction
SES	Senior Executive Service
SFFAS	Statement of Federal Financial Accounting Standards
SFIS	Standard Financial Information Structure
SLA	Service Level Agreement
SMC	Senior Management Council
SME	Subject Matter Expert
SMEC	Ship Maintenance Executive Council

Acronym	Term
SOA	Statement of Assurance
SOC	Service Organization Control
SOC 1	System Organization Control 1st Level
SOD	Segregation of Duties
SOP	Standard Operating Procedure
SP	Special Publication
SPAWAR	Space and Naval Warfare Systems Command
SPECWAR	Naval Special Warfare Command
SPOE	Single Point of Entry
SPS	Standard Procurement System
SSAE	Statements on Standards for Attestation Engagements
SSN	Social Security Number
SSP	Shared Service Provider
SSP	Strategic Systems Programs
STARS	Standard Accounting Reporting System
STARS-FL	Standard Accounting Reporting System- Field Level
SYSCOM	Systems Commands
TAC	Transportation Account Controls
TAR	Triannual Review
TB	Trial Balance
TBD	To Be Determined
TO	Task Order
ToP	Transportation of People
ToT	Transportation of Things
TRIM	Total Records Information Management
TU	Transaction Universe
UDO	Undelivered Order
UFCO	Unfilled Customer Order
ULO	Unliquidated Obligations
USMC	United States Marine Corps
USMC – DDS	United States Marine Corps Deployable Disbursing System
USSGL	United States Standard General Ledger
VCNO	Vice Chief of Naval Operations
VDNS	Vice Director, Naval Staff
VISTA	Visual Inter-Fund System Transaction Accountability
WAWF	Wide Area Work Flow
WCF	Working Capital Fund
WCF-INV	Working Capital Fund Inventory
WinIATS	Windows Integrated Automated Travel System

Attachment 2: Points of Contact

The Department of the Navy (DON) Points of Contact for the Managers' Internal Control Program and issues dealing with material weaknesses reported in the DON's Fiscal Year 2017 FMFIA Statement of Assurance are:

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FEDERAL MANAGERS'
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STATEMENT OF ASSURANCE
FY 2017



DEPARTMENT OF THE NAVY
